LINDQUIST & VENNUM P.L.L.P.

4200 IDS CENTER
80 SOUTH EIGHTH STREET
MINNEAPOLIS, MINNESOTA 55402-2205
TELEPHONE: 612-371-3211
FAX: 612-371-3207

IN DENVER
LINDQUIST, VENNUM & CHRISTENSEN
P.L.L.P.
600 17TH STREET, SUITE 2125
DENVER, COLORADO 80202-5401
TELEPHONE: 303-573-5900

ATTORNEYS AT LAW

Erin Daniels
Legal Assistant
(612) 371-3909

April 8, 2008

South Dakota Secretary of State
State Capitol, Suite 204
Business Division-Bond Information Statement Filing
500 East Capitol
Pierre, SD 57501-5070

Re: **$5,800,000 Certificates of Participation (Limited Tax General Obligation) Evidencing Proportionate Interests of the Owners in a Lease-Purchase Agreement between U.S. Bank National Association and Pennington County, South Dakota, Series 2008A**

Dear Filing Officer:

Enclosed for filing is a Bond Information Statement in connection with the above-referenced issues. Also enclosed is the $1.00 filing fee.

If you have any questions, please call me at (612) 371-3909.

Sincerely,

Erin Daniels

Erin Daniels
Legal Assistant

Enclosures

RECEIVED
APR 14 2008
S.D. SEC. OF STATE
1786157

BOND INFORMATION STATEMENT
State of South Dakota
SDCL 6-8B-19

Return: Secretary of State
State Capitol
500 E. Capitol
Pierre, SD 57501-5077

FILING FEE: $1.00

Every public body, authority, or agency issuing any general obligation, revenue, improvements, industrial revenue, special assessment, or other bonds of any type shall file with the Secretary of State a bond information statement concerning each issue of bonds.

| | | |
|---|---|---|
| 1. | Name of issuer: | Pennington County |
| 2. | Designation of issue: | $5,800,000 Series 2008A Certificates of Participation (Limited Tax General Obligation) Evidencing Proportionate Interests of the Owners in a Lease-Purchase Agreement between U.S. Bank National Association and Pennington County, South Dakota |
| 3. | Date of issue: | April 8, 2008 |
| 4. | Purpose of issue: | (i) to finance the acquisition, construction, renovating, furnishing and equipping of a jail annex on certain real property located in the City of Rapid City, South Dakota and (ii) to pay the cost of issuance of the Series 2008A Certificates |
| 5. | Type of bond: | Certificates of Participation Evidencing Proportionate Interests of the Owners in a Lease-Purchase Agreement between U.S. Bank National Association and Pennington County, South Dakota |
| 6. | Principal amount and denomination of bond: | Series 2008A $5,800,000 in denominations of $5,000 or any integral multiple thereof |
| 7. | Paying dates of principal and interest: | See attached Official Statement |
| 8. | Amortization schedule: | See attached Official Statement |
| 9. | Interest rate or rates, including total aggregate interest cost: | See attached Official Statement |

RECEIVED
APR 14 2008
S.D. SEC. OF STATE

This is to certify that the above information pertaining to Pennington County is true and correct on this 8th day of April 2008.

LINDQUIST & VENNUM P.L.L.P.,
as Bond Counsel

By: Elizabeth Aby

For further information regarding the enclosed filing, contact Elizabeth G. Aby, Lindquist & Vennum P.L.L.P., 4200 IDS Center, Minneapolis, Minnesota (612/371-3535).

**NEW ISSUE**
**BANK QUALIFIED**

**RATING: Moody's "Aa3"**
**See Rating herein**

*In the opinion of Lindquist & Vennum P.L.L.P., Bond Counsel, under existing laws, regulations, rulings and decisions, the interest component of the Lease Payments received by the owners of the Series 2008A Certificates is not includible in gross income for federal income tax purposes except under certain conditions. The interest component of the Lease Payments received by the owners of the Series 2008A Certificates is not an item of tax preference for purposes of the federal alternative minimum tax applicable to all taxpayers, including individuals. For purposes of acquisition by banks and other financial institutions the County will designate a portion of the Lease and the Series 2008A Certificates as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. The interest component of the Lease Payments received by the owners of the Series 2008A Certificates is includable in gross income for South Dakota tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws Chapter 10-43.*

# $5,800,000

# CERTIFICATES OF PARTICIPATION, SERIES 2008A

**(Limited Tax General Obligation)**
**Evidencing Proportionate Interests of the Owners**
**in a Lease-Purchase Agreement between**

## U.S. BANK NATIONAL ASSOCIATION

**and**

## PENNINGTON COUNTY, SOUTH DAKOTA

**Dated: Date of Issuance** **Due: December 1, as shown on inside cover**

The Certificates of Participation Series 2008A (the "Series 2008A Certificates") are being issued (i) to finance the acquisition, construction, renovating, furnishing and equipping of a jail annex, including capitalized interest (the "2008A Project") on certain real property (the "Land") located in the City of Rapid City, South Dakota and (ii) to pay the cost of issuance of the Series 2008A Certificates. The Series 2008A Certificates represent proportionate interests in lease payments (the "Lease Payments") made under a Lease-Purchase Agreement, dated as of March 1, 2003, as amended and supplemented by the First Amendment to Lease-Purchase Agreement, dated as of March 1, 2008 (collectively, the "Lease"), pursuant to which Pennington County, South Dakota (the "County"), as lessee, is leasing the Land and Facilities which include the 2008A Project from U.S. Bank National Association (the "Trustee"), as lessor. The Series 2008A Certificates are issued pursuant to a Declaration of Trust, dated as of March 1, 2003, as amended and supplemented by the First Supplemental Declaration of Trust, dated as of March 1, 2008 (collectively, the "Trust Agreement") by the Trustee, and joined in by the County.

The Series 2008A Certificates are subject to redemption prior to maturity as described herein.

The County has agreed to levy a tax annually which is intended to provide the Trustee with sufficient revenue to make all Lease Payments under the Trust Agreement as they become due.

The Series 2008A Certificates are issuable in fully registered form and will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2008A Certificates. Purchases of beneficial ownership interests in the Series 2008A Certificates will be made in book-entry form only, in principal amounts of $5,000 or whole multiples thereof. Beneficial owners of the Series 2008A Certificates will not receive certificates evidencing their ownership interests in the Series 2008A Certificates. So long as DTC or its nominee is the registered owner of the Series 2008A Certificates, payments of principal, redemption price and interest will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to beneficial owners is the responsibility of the DTC participants.

Interest due with respect to the Series 2008A Certificates is payable semiannually on June 1 and December 1 of each year commencing December 1, 2008.

The Series 2008A Certificates are offered for delivery when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal, cancellation or modification of the offer without notice, subject to delivery to and acceptance by the Underwriter, and subject to certain other conditions, including an opinion of Lindquist & Vennum P.L.L.P., Minneapolis, Minnesota, Bond Counsel, as to legality and tax exemption. Certain legal matters will be passed upon for the County by Jay Alderman, Esq., Deputy State's Attorney.

Delivery of the Series 2008A Certificates offered hereby will be made on or about April 8, 2008, against payment therefor by the Underwriter.

DOUGHERTY & COMPANY LLC

The date of this Official Statement is March 12, 2008

## MATURITY SCHEDULE

| Maturity Date | Principal Amount | Interest Rate | Yield | Cusip |
|---|---|---|---|---|
| June 1, 2009 | $150,000.00 | 2.500% | 2.350% | 708292 CE5 |
| December 1, 2009 | 155,000.00 | 2.500 | 2.375 | 708292 CF2 |
| June 1, 2010 | 155,000.00 | 2.400 | 2.400 | 708292 CG0 |
| December 1, 2010 | 155,000.00 | 2.600 | 2.600 | 708292 CH8 |
| June 1, 2011 | 160,000.00 | 2.700 | 2.700 | 708292 CJ4 |
| December 1, 2011 | 160,000.00 | 2.850 | 2.850 | 708292 CK1 |
| December 1, 2012 | 330,000.00 | 3.125 | 3.125 | 708292 CM7 |
| June 1, 2013 | 170,000.00 | 3.200 | 3.200 | 708292 CN5 |
| December 1, 2013 | 170,000.00 | 3.250 | 3.300 | 708292 CP0 |
| June 1, 2014 | 175,000.00 | 3.350 | 3.350 | 708292 CQ8 |
| December 1, 2014 | 175,000.00 | 3.450 | 3.450 | 708292 CR6 |
| June 1, 2015 | 180,000.00 | 3.550 | 3.550 | 708292 CS4 |
| December 1, 2015 | 185,000.00 | 3.600 | 3.600 | 708292 CT2 |
| June 1, 2017 | 570,000.00 | 3.750 | 3.800 | 708292 CW5 |
| December 1, 2017 | 195,000.00 | 3.900 | 3.900 | 708292 CX3 |
| December 1, 2018 | 405,000.00 | 4.000 | 4.050 | 708292 CZ8 |
| June 1, 2019 | 210,000.00 | 4.150 | 4.150 | 708292 DA2 |
| December 1, 2019 | 215,000.00 | 4.200 | 4.200 | 708292 DB0 |
| June 1, 2020 | 220,000.00 | 4.250 | 4.250 | 708292 DC8 |
| December 1, 2020 | 225,000.00 | 4.300 | 4.300 | 708292 DD6 |
| June 1, 2021 | 225,000.00 | 4.400 | 4.400 | 708292 DE4 |
| December 1, 2021 | 230,000.00 | 4.450 | 4.450 | 708292 DF1 |
| June 1, 2022 | 235,000.00 | 4.500 | 4.500 | 708292 DG9 |
| December 1, 2022 | 245,000.00 | 4.550 | 4.550 | 708292 DH7 |
| June 1, 2023 | 250,000.00 | 4.550 | 4.550 | 708292 DJ3 |
| December 1, 2023 | 255,000.00 | 4.600 | 4.600 | 708292 DK0 |

This Official Statement does not constitute an offer to sell the 2008A Certificates in any state or other jurisdiction to any person whom it is unlawful to make such offer in such state or jurisdiction. No dealer, salesman, or any person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the 2008A Certificates, and if given or made, such information or representation must not be relied upon.

The information set forth herein has been obtained from the County, DTC, and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the County or anyone acting on its behalf. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the 2008A Certificates shall, except as specifically stated herein, create any implication that there has been no change in the affairs of the County since the date of this Official Statement.

## TABLE OF CONTENTS



IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION OF THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED "FORWARD-LOOKING STATEMENTS," MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE WORDS SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE COUNTY DOES NOT EXPECT OR INTEND TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

THE 2008A CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SECTION 3(A)(2) OF SUCH ACT.

Any CUSIP numbers for the 2008A Certificates included in this Official Statement are provided for the convenience of the owners and prospective investors. The County is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as printed on the 2008A Certificates or as set forth in this Official Statement.

*(this page has been left blank intentionally)*

**OFFICIAL STATEMENT**

**$5,800,000**
**CERTIFICATES OF PARTICIPATION, SERIES 2008A**
**(LIMITED TAX GENERAL OBLIGATION)**
**EVIDENCING PROPORTIONATE INTERESTS OF THE OWNERS**
**IN A LEASE-PURCHASE AGREEMENT BETWEEN**

**U.S. BANK NATIONAL ASSOCIATION**
**AND**
**PENNINGTON COUNTY, SOUTH DAKOTA**

## INTRODUCTION

### Definitions

Certain terms used in this Official Statement are defined in Appendix A hereto.

### General Description

The purpose of this Official Statement, including the cover pages and Appendices hereto, is to provide information in connection with the offering, sale and delivery of $5,800,000 aggregate principal amount of Series 2008A Certificates. The Series 2008A Certificates represent the undivided ownership interest of the Owner thereof in and to the Lease-Purchase Agreement, dated as of March 1, 2003, as amended and supplemented by the First Amendment to Lease-Purchase Agreement, dated as of March 1, 2008 (collectively, the "Lease"), by and between the Trustee as lessor and the County as lessee, and the right to receive certain revenue thereunder, including, without limitation, the Lease Payments due under the Lease, at the times, in the manner and from the sources specified therein.

The Trustee has issued the Series 2008A Certificates pursuant to a Declaration of Trust, dated as of March 1, 2003, as amended and supplemented by the First Supplemental Declaration of Trust, dated as of March 1, 2008 (collectively, the "Trust Agreement"). The Trustee's interest in the Lease and in the Facilities (as defined in the Trust Agreement), including the right to receive Lease Payments, has been assigned to the Trustee for the benefit of the Owners of the Series 2008A Certificates pursuant to the terms of the Trust Agreement. Pursuant to the Lease, the County will remit such Lease Payments directly to the Trustee. The Lease Payments are payable by the County as described in "LEASE-PURCHASE AGREEMENT—Lease Term and Payments."

Pursuant to the Ground Lease, dated as of March 1, 2003 (the "Ground Lease"), the Trustee leased the Land from the County for a term ending on December 1, 2023, automatically extendable for an additional 10-year term if the Series 2008A Certificates have not been paid.

Pursuant to the Lease the Trustee will cause the Facilities to be constructed on the Land and leases the Land and the Facilities to the County for a term ending on December 1, 2023.

## THE CERTIFICATES OF PARTICIPATION

### General Provisions

The Series 2008A Certificates will be authenticated and issued by the Trustee pursuant to the Trust Agreement. The Series 2008A Certificates will be initially dated the date of issuance and will mature as shown on the inside cover page hereof. Interest on the Series 2008A Certificates is payable on each June 1, and December 1, commencing December 1, 2008. The Series 2008A Certificates are issuable in denominations of $5,000. Each Series 2008A Certificate evidences the Owner's right to receive distributions of a portion of the Lease Payments payable by the County pursuant to the Lease.

Principal, redemption price and interest will be payable to the beneficial owners of the Series 2008A Certificates through the facilities of DTC for so long as the book-entry system is in effect. See "BOOK-ENTRY ONLY SYSTEM" Appendix E. In the event that the book-entry system is discontinued for the Series 2008A

Certificates: (1) the principal and redemption price of the Series 2008A Certificates will be payable at the principal corporate office of the Trustee in Saint Paul, Minnesota; and (ii) interest will be payable by check or draft of the Trustee mailed on the Interest Payment Date to the persons who were registered owners thereof as of the fifteenth day of the month preceding the Interest Payment Date. If any payment of interest or principal is due on a day that is not a business day, payment is required to be made on the next succeeding business day with the same effect as if paid when otherwise due.

Series 2008A Certificates may be transferred or exchanged upon surrender at the principal corporate office of the Trustee, in the manner provided in the Trust Agreement.

**Redemption**

*Extraordinary Redemption.* The Series 2008A Certificates are subject to redemption, in whole, but not in part, on any date for which notice of redemption can be given, at a redemption price equal to their principal amount plus accrued interest, if the County elects, or is required to prepay the Lease Payments upon the occurrence of certain events of damage to, or destruction or condemnation of the Facilities.

*Optional Redemption.* The Series 2008A Certificates maturing on and after June 1, 2017, are subject to redemption on and after December 1, 2016, in whole on any date or in part on any date, at a price equal to the principal amount thereof to be redeemed, plus interest accrued to the date of redemption.

*Mandatory Sinking Fund Redemption.* The Series 2008A Certificates maturing on December 1, 2012, June 1, 2017 and December 1, 2018 (the "Term Certificates"), are subject to mandatory redemption, and will be redeemed pursuant to a mandatory redemption, and will be redeemed pursuant to a mandatory sinking fund redemption, at a redemption price equal to their principal amount plus accrued interest to the date of redemption, on the dates set forth below (each such date being a "Sinking Fund Payment Date") in an amount (a "Mandatory Sinking Fund Payment") equal to the following principal amounts:

**December 1, 2012 Term Certificates**

| Sinking Fund Redemption Dates | Principal Amount |
|---|---|
| June 1, 2012 | $165,000.00 |
| December 1, 2012 (maturity) | 165,000.00 |

**June 1, 2017 Term Certificates**

| Sinking Fund Redemption Dates | Principal Amount |
|---|---|
| June 1, 2016 | $185,000.00 |
| December 1, 2016 | 190,000.00 |
| June 1, 2017 (maturity) | 195,000.00 |

**December 1, 2018 Term Certificates**

| Sinking Fund Redemption Dates | Principal Amount |
|---|---|
| June 1, 2018 | $200,000.00 |
| December 1, 2018 (maturity) | 205,000.00 |

or if less than such amount of Series 2008A Certificates is outstanding on any such Sinking Fund Payment Date, an amount equal to the aggregate principal amount of all Series 2008A Certificates then outstanding.

*Selection of Certificates for Redemption.* The Series 2008A Certificates shall be called for redemption in whole or in part, and if in part, at the option of the County and in such order as the County shall determine. If less than all the Series 2008A Certificates of a maturity are called for redemption, the County will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity and series to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. The County shall cause notice of the call for redemption to be

mailed by certified or registered mail to the registered owners of any Series 2008A Certificates to be redeemed at their addresses as they appear on the certificate register at least thirty (30) days prior to the designated redemption date.

*Notice of Redemption*. When redemption is authorized or required, the Trustee shall give the Owners of the Series 2008A Certificates to be redeemed notice of the redemption of their Series 2008A Certificates. Such notice shall specify: (a) the Series 2008A Certificates to be redeemed; (b) the date of redemption; and (c) the place or places where the redemption will be made. Such notice shall further state that on the specified redemption date interest on the Series 2008A Certificates to be redeemed shall cease to accrue and be payable.

Notice of such redemption shall be given not less than thirty (30) days prior to the redemption date by mailing first class, postage prepaid, copies thereof to the Owners whose Series 2008A Certificates are to be redeemed; provided that notice shall be given to any securities depository in accordance with its operational arrangements. Failure to mail such notice and any defect in such notice shall not affect the validity of the proceedings for the redemption of any Series 2008A Certificate not affected by such failure or defect.

**Additional Certificates**

Additional Certificates may be issued under and be equally and ratably secured by the Trust Agreement on a parity with the Certificates issued under the Trust Agreement and any other Additional Certificates Outstanding, at any time and from time to time, for any of the following purposes.

To provide funds to pay all or any part of the costs of completing the Project, the total of such costs to be evidenced by a certificate signed by an Authorized Officer of the County.

To provide funds to pay all or any part of the costs of repairing, replacing or restoring the Project in the event of damage, destruction or condemnation thereto or thereof, but only to the extent that such costs exceed the Net Proceeds of the insurance or condemnation awards out of which such costs are to be paid pursuant to the Lease.

To provide funds to pay all or any part of the costs of acquisition, construction, furnishing and equipping of additions to the Facilities.

To provide funds for refunding all or any portion of the Certificates of any series issued under the Trust Agreement then Outstanding, including the payment of any premium thereon and interest to accrue to the designated redemption date and any expenses in connection with such refunding.

Before any Additional Certificates shall be issued under the Trust Agreement, the County shall adopt a resolution (i) authorizing or approving the issuance of such Additional Certificates; (ii) authorizing or approving the execution of a Supplemental Trust Agreement for the purpose of issuing such Additional Certificates and fixing the amount and terms thereof and describing the purpose or purposes for which such Additional Certificates are being issued or describing the Certificates to be refunded; and, if required, (iii) authorizing the execution of an amendment to the Lease to provide for Lease Payments at least sufficient to pay amounts representing principal, premium, if any, and interest with respect to the Certificates then to be Outstanding (including the Additional Certificates to be issued) as the same become due.

Except as to any difference in date, maturity, interest rate or redemption provisions, such Additional Certificates shall be on a parity with and shall be entitled to the same benefit and security of the Trust Agreement as the Certificates and any other Additional Certificates Outstanding after the issuance of such Additional Certificates.

Such Additional Certificates shall be executed substantially in the form and manner set forth in the Trust Agreement, upon filing with the Trustee of the following:

(1) An original or certified copy of the resolution adopted by the County Board authorizing or approving the issuance of such Additional Certificates and the execution of such Supplemental Trust Agreement.

(2) An original executed counterpart of the Supplemental Trust Agreement providing for the issuance of such Additional Certificates.

(3) An original executed counterpart of the amendment to the Lease, if required, which amendment shall clearly establish that the County has agreed that the Additional Certificates shall constitute Certificates for the purpose of computing the required Lease Payments.

(4) A request and authorization to the Trustee, on behalf of the County, executed by an Authorized Officer of the County, to execute the Additional Certificates and to deliver them to the Original Purchaser therein identified upon payment of the purchase price thereof to the Trustee.

(5) An opinion of counsel nationally recognized in the area of municipal finance to the effect that the issuance of such Additional Certificates will not result in amounts representing interest payable with respect to any Certificates then Outstanding (including such Additional Certificates) becoming includable in gross income for federal income tax purposes.

(6) In the case of Additional Certificates being issued to refund Outstanding Certificates, such additional documents as shall be reasonably required by the Trustee to evidence that provision has been duly made in accordance with the provisions of the Trust Agreement for the payment of all of the Certificates to be refunded.

(7) Such other Certificates, statements, receipts and documents as the Trustee shall reasonably require for the delivery of such Additional Certificates.

Except as described above, no obligations payable from the sources pledged for payment or security of the Certificates relating to the Trust Agreement, shall be issued on a parity with the Certificates relating to the Trust Agreement, but obligations subordinate to the Certificates relating to the Trust Agreement, may be issued upon the express written direction and consent of the County.

## SOURCE AND SECURITY FOR PAYMENTS

### Lease Payments

The Lease requires payment of semi-annual Lease Payments by the County, which payments are to be paid directly to the Trustee. The Lease Payments are due from the County on the third Business Day preceding the end of each May and November.

The Lease is not subject to termination by the County except upon payment or prepayment of the Lease Payments, and the County's obligation to make Lease Payments is absolute and unconditional. The County has covenanted in its Resolution authorizing the Series 2008A Certificates (the "Resolution") that it will budget and appropriate sufficient moneys in each year of the Lease term to pay the Lease Payments when due and to pay any other amounts payable by the County under the Lease. The County further covenants in the Resolution that it will take all actions necessary to provide moneys to make such payments under the Lease, including the levy of such taxes as may be necessary, subject only to the limitations on such levies imposed by South Dakota law. The current and proposed limitations on the County's ability to levy taxes to pay the Lease Payments and other amounts payable under the Lease are discussed below.

### Levy Limitations

The tax levy for general purposes by a county in the State cannot exceed twelve dollars ($12.00) per thousand dollars of taxable valuation. In addition to the tax levy for general purposes, a South Dakota county may levy up to $.90 per thousand dollars of taxable valuation for county buildings. South Dakota Codified Laws, Section 10-13-35 provides that the total amount of revenue derived from property taxes for county purposes may increase over the prior year's revenues by the smaller of three percent (3%) or the CPI inflation index and increases in revenues from additions, improvements or changes in the use of real property are permitted, as well as increased revenues resulting from annexations, reorganizations and certain other limited circumstances. Section 10-13-35 also provides that a county may increase its revenues above the revenue limitation to pay principal, interest, and redemption charges on any bonds, which were subject to a referendum and the Series 2008A Certificates qualify for this increase of revenues by the County.

For 2007 taxes payable in 2008 the County's General Fund Levy is $4.22 and its Building Fund Levy is $0.28. The County expects that the Building Fund Levy will increase by $.082/$1,000 of taxable valuation for the increased levy for the Series 2008A Certificates. The Building Fund Levy can not exceed $0.90/$1,000 of taxable valuation.

## THE 2008A PROJECT

The 2008A Project consists of the acquisition, construction, renovating, furnishing and equipping of the jail annex to be located on certain real estate owned by the County (the "Land") and capitalizing interest.

## SOURCES AND USES OF FUNDS

The sources and uses of funds, including proceeds of the sale and issuance of the Series 2008A Certificates are expected to be as follows:

**Sources**

| | |
|---|---|
| Series 2008A Certificates | $ 5,800,000.00 |
| Net Original Issue Discount | (3,844.95) |
| Total | $ 5,796,155.05 |

**Uses**

| | |
|---|---|
| Construction Account | $ 5,580,000.00 |
| Capitalized Interest | 140,702.88 |
| Cost of Issuance, including Underwriter's Discount and original issue discount | 75,452.17 |
| Total | $ 5,796,155.05 |

## THE COUNTY

The County is a political subdivision, duly organized and existing under and pursuant to the constitution and laws of the State of South Dakota. The County has the authority to enter into a lease for the purpose of acquiring real and personal property for its governmental functions. General information regarding the County's location, organization, administration, economy, tax base, tax collections and financial condition is included in Appendix B to this Official Statement.

## LEASE

The following is a summary of certain provisions of the Lease. This summary does not purport to be complete, and reference is made to the full text of the Lease for a complete recital of its terms.

**Lease Term and Payments**

The Lease-Purchase Agreement, dated as of March 1, 2003 (the "Original Lease"), as amended and supplemented by the First Amendment to Lease-Purchase Agreement, dated as of March 1, 2008 (the "First Amendment to Lease") (collectively, the Original Lease, as amended and supplemented by the First Amendment to Lease is herein referred to as the "Lease") and extends until December 1, 2023. The Lease Payments due under the First Amendment to Lease commence on November 29, 2008 and are payable semiannually thereafter, with the last Lease Payment payable under the First Amendment to Lease due on the third business day preceding the last day of November 2023.

The Lease shall terminate prior to December 1, 2023, upon the earliest of the following events:

(a) the County elects to exercise its option to deposit with the Trustee cash or securities sufficient to pay or prepay all unpaid Lease Payments when they are due: or

(b) the County elects to exercise its option to prepay all of the Lease Payments.

The Lease is otherwise not terminable by the County, and the County has covenanted to include each year in its annual budget moneys sufficient to pay the Lease Payments and other obligations of the County under the Lease.

**Consummation of Purchase**

The Trustee's interest in the Land and Facilities will be transferred, conveyed and assigned to the County and the Lease will terminate upon payment of all Lease Payments due under the Lease, or upon prepayment of the Lease Payments or discharge of the County's obligation to make the Lease Payments in accordance with Article VIII of the Lease.

**Covenants of the County**

The County represents, covenants and warrants that: (a) the County is authorized under the Constitution and laws of the State of South Dakota to enter into the Lease and the transactions contemplated therein, and to perform all of its obligations thereunder; (b) the officers of the County executing the Lease have been duly authorized to execute and deliver the Lease and (c) the Facilities will be used during the term of the Lease primarily to carry out the governmental or proprietary purposes of the County and its departments, agencies, institutions, instrumentalities and political subdivisions.

**Title to the Land and Facilities; Security**

Title to the Land and Facilities will be held by the Trustee during the term of the Lease, unless the County discharges its obligation to make the Lease Payments pursuant to the Lease, at which time the Trustee will convey title to the County.

Title to the Land and Facilities will also pass to the County upon payment of an amount of cash or securities which are general obligations of the United States sufficient to pay all Lease Payments when due or subject to prepayment.

**Maintenance and Repair**

The County agrees that at all times during the term of the Lease, the County will, at the County's sole cost and expense, maintain, preserve and keep the Land and Facilities, or part and parcel thereof, in good repair, working order and condition and that the County will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals.

**Restrictions on Assignment and Conveyance**

The Lease and the Land and Facilities may not be sold, leased, pledged, assigned or otherwise encumbered by the County for any reason. Such restrictions shall not preclude the County from permitting the use of the Land and Facilities by others for public purposes or in furtherance of any governmental or proprietary functions of the County. No such permitted use or lease shall relieve the County of its obligations under the Lease.

**Taxes**

The County shall pay all property and excise taxes and governmental charges of any kind whatsoever which may at any time be lawfully assessed or levied against or with respect to the Land and Facilities or any part thereof or the Lease Payments, and which become due during the term of the Lease with respect thereto; and all special assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Land and Facilities; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are required to be paid during the term of the Lease as and when the same become due. The County shall not be required to pay any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock, corporate or other similar tax payable by the Trustee, its successors or assigns, unless such tax is made in lieu of or as a substitute for any real estate or other tax upon property.

**Insurance**

The County shall cause adequate casualty, public liability and property damage insurance in specified amounts (with respect to the casualty insurance, in an amount not less than the full insurable value of the Facilities, but in no event less than the outstanding principal balance of the purchase price to be paid under the Lease) to be carried and maintained with respect to the Land and Facilities and to protect the Trustee from liability in all events.

**Indemnification Covenants**

As between the Trustee and the County, the County assumes all risks and liabilities, whether or not covered by insurance, for loss or damage to the Facilities and for injury to or death of any person or damage to any property, whether such injury or death be with respect to agents or employees of the County, the Trustee or of third parties, and whether such property damage be to the County or the Trustee's property or the property of others, which is proximately caused by the negligent conduct of the County, its officers, employees, agents and lessees, or arising out of the operation, maintenance or use of the Land and Facilities by the County, its officers, employees, agents and lessees. The County assumes responsibility for and agrees to reimburse the Trustee fur all liabilities, obligations, losses, damages, penalties, claims, actions, costs and expenses (including reasonable attorneys' fees) of whatsoever kind and nature, imposed on, incurred by or asserted against the Trustee or its officers or employees that in any way relate to or arise out of a claim, suit or proceeding based in whole or in part on the foregoing, to the maximum extent permitted by law.

**Events of Default and Remedies**

The occurrence of one or more of the following events shall constitute an Event of Default under the Lease: (a) failure by the County to pay any Lease Payment or other payment required to be paid under the Lease at the time specified therein; (b) failure by the County to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than the failure to timely pay any Lease Payment or other required payment, for a period of forty-five (45) days after written notice to the County by the Trustee, specifying such failure and requesting that it be remedied, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Trustee has agreed not to withhold unreasonably its consent to an extension of such time if corrective action is instituted by the County within any applicable period and diligently pursued until the default is corrected; or (c) the occurrence of an Act of Bankruptcy.

Upon the occurrence of any Event of Default specified in the Lease, any or all of the following remedies are provided: (a) without terminating the Lease, and subject to the rights of any entity subleasing all or any portion of the Land and Facilities which is not in default under a sublease complying with the Lease, re-enter and take possession of the Land and Facilities and exclude the County and any sublessee in default from using it until the default is cured; or (b) take whatever action at law or in equity may appear necessary or desirable to (i) collect the Lease Payments then due or as they become due, or (ii) enforce performance and observance of any obligation, agreement or covenant of the County under the Lease or the Resolution, including without limitation enforcing the obligations of the County to budget and levy taxes for the payment of the Lease Payments.

**Damage, Destruction and Condemnation; Use of Insurance Proceeds**

If, while the Lease is in effect, (a) the Facilities, or any portion thereof, are destroyed (in whole or in part) or damaged by fire or other casualty or, (b) title to, or the temporary use of, the Land and Facilities (or any part thereof) or the estate of the County or the Trustee in the Land and Facilities, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body, or any person, firm or corporation acting under governmental authority, the County will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification or improvement of the Land and Facilities.

If the net proceeds of insurance or a condemnation award are insufficient to pay in full the cost of any repair, restoration, modification or improvement to the Land and Facilities, the County either (a) shall complete the work and pay any costs in excess of the amount of the net proceeds of insurance or a condemnation award, or (b) may apply the net proceeds to prepayment of Lease Payments.

## TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement. This summary does not purport to be complete, and reference is made to the full text of the Trust Agreement for a complete recital of its terms.

**General**

The Trust Agreement is executed by the Trustee and joined in by the County. The purpose of the Trust Agreement is to provide for the authentication, issuance, payment and redemption of the Certificates issued

thereunder and to provide for the creation of a Trust Fund for such Certificates for the purposes hereinafter described.

**The Certificates of Participation**

The Trustee is authorized upon receipt of a request from the County to issue, authenticate and deliver the Series 2008A Certificates. The Series 2008A Certificates will be issued in the form provided in the Trust Agreement and shall evidence the ownership interest of the Owners of the Series 2008A Certificates in and to the Lease and the Lease Payments to be paid by the County to the Trustee pursuant to the Lease and the Trust Agreement, and all revenues derived from the Lease, any money made available for distribution to the Owners of the Series 2008A Certificates from the subsequent sale, leasing or other disposition of the Land and Facilities as a result of an event of default, and any other moneys required to be paid to the Trustee for the Owners of Series 2008A Certificates.

**Funds**

The Trust Agreement creates a fund known as the Trust Fund. All moneys and investments held by the Trustee under the Trust Agreement are held for the benefit of the present and future Owners of the Series 2008A Certificates and shall be expended only as provided in the Trust Agreement. Within the Trust Fund, there are created a Lease Payment Account, a Redemption Account and a Construction Account.

**The Lease Payment Account**

The Trust Agreement establishes a Lease Payment Account into which shall be deposited the amount of accrued interest and capitalized interest received by the Trustee from the initial proceeds, any transfer from the Construction Account, all interest or income received by the Trustee with respect to the Lease or the Land and Facilities.

On each Payment Date, the Trustee shall withdraw from the Lease Payment Account an amount equal to the principal and interest payments due with respect to the Series 2008A Certificates on such Payment Date. Such amount shall be applied to the payment of principal and interest payments due with respect to the Series 2008A Certificates on such Payment Date. The Trustee shall transfer from the Lease Payment Account to the Redemption Account all moneys on hand or received in the Lease Payment Account which are to be used for the redemption of Series 2008A Certificates.

The Trustee shall deposit into the Redemption Account all moneys paid to it by the County pursuant to any of the County's prepayment options and, in the event of termination of the Lease as a result of an event of default under the Lease, all net proceeds received from the sate or other disposition of the Land and Facilities. Also, in the event of termination of the Lease as a result of an event of default or the exercise by the County of its option to prepay Installment Payments, the Trustee shall transfer to the Redemption Account all moneys on hand in the Lease Payment Account not required to pay principal and interest due or past due on the Series 2008A Certificates.

All moneys on hand in the Redemption Account which will not be used for the redemption of Series 2008A Certificates within thirty (30) days after the date of deposit of such funds, shall be invested at a yield not exceeding the yield on the Lease, computed in accordance with Section 148 of the Code and regulations promulgated thereunder. However, such funds may be invested at a higher yield if the County obtains and delivers to the Trustee an opinion of an attorney or firm of attorneys nationally recognized as bond counsel stating that the investment of such moneys may be made without restriction as to yield or subject to another yield limitation Any moneys remaining in the Redemption Account after redemption of all outstanding Series 2008A Certificates shall be paid to the County.

**The Construction Account**

With respect to Series 2008A Certificates issued to finance improvements to the 2008A Project, the net proceeds of the Series 2008A Certificates other than the amounts deposited in the Lease Payment Account shall be deposited in the Construction Account. The Trustee shall make disbursements from the Construction Account from time to time, upon County certification, in payment or reimbursement of the costs of constructing the improvements to the Facilities and pay costs of issuance of the Series 2008A Certificates.

Upon completion of all phases of construction, any balance in the Construction Account shall be transferred to the Series 2008A Lease Payment Account.

**Rights of Trustee**

In carrying out its duties and exercising its powers under the Lease, the Trustee shall exercise that degree of care under the circumstances then prevailing which men of prudence, discretion and intelligence exercise in the management of their own business affairs.

The Trustee shall be protected and shall incur no obligation or liability with respect to the payment of Lease Payments by the County or the performance by the County of any of its obligations under the Lease. The Trustee shall not be bound to recognize any person as an Owner of any Series 2008A Certificate or to take any action at his request unless such Series 2008A Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Series 2008A Certificate shall be furnished to the Trustee.

The Trust Agreement does not require that the Trustee expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement, or in the exercise of any of its right or powers thereunder. The Trustee shall not be individually liable for any payments to be made under any Series 2008A Certificates, the Trust Agreement or the Lease. The Trustee shall be under no obligation to institute or to take any immediate action, or to enter any appearance or in any way defend any suit in which it may be made defendant, take any steps in the enforcement of any rights and powers under the Trust Agreement until it shall be indemnified to its satisfaction for any and all costs, expenses, outlays and counsel fees and any other reasonable disbursements and against all liabilities. The Trustee shall be compensated by the County and such compensation shall not be paid from the Lease Payments or any other revenues received pursuant to the Lease or funds held by the Trustee except with respect to amounts expended in connection with the exercise of remedies upon the occurrence of any event of default.

The Trustee may resign, and thereby become discharged from its obligations under the Trust Agreement, by notice in writing given to the Owners of the Series 2008A Certificates. The Trustee may be removed at any time by instrument in writing executed by the Owners of not less than a majority of the aggregate principal amount of the Series 2008A Certificates or by agreement between the County and the Trustee. If at any time the position of Trustee shall become vacant, a majority of the Registered Owners shall appoint a Trustee to fill such vacancy.

Upon the occurrence of any Event of Default under the Lease, the Trustee or the Owners of not less than a majority of the aggregate principal amount of the Series 2008A Certificates then outstanding shall be entitled, upon notice in writing to the County and the Trustee, to enforce the rights and exercise the remedies provided to the Trustee in the Lease, as appropriate.

**Events of Default**

Upon the occurrence of any Event of Default under the Lease, the Trustee or the Owners of not less than a majority of the aggregate principal amount of the Certificates then outstanding shall be entitled, upon notice in writing to the County and the Trustee, to enforce the rights and exercise the remedies provided to the Trustee in the Lease, as appropriate.

**Amendments to Trust Agreement and Lease**

The Trust Agreement and the Lease may be amended in writing by agreement among all of the parties thereto, but, except as provided below no such amendment shall become effective without the prior written consent of two-thirds in aggregate principal amount of the Certificates then Outstanding; provided that no such amendment shall impair the right of any Owner to receive his or her proportionate share of any Lease Payment in accordance with his or her Certificate; provided that amendments required by a Rating Agency as a condition to maintaining the initial rating on the Certificates shall not require consent of Certificate Owners.

The County and the Trustee may, without the consent of or notice to any of the Owners of the Certificates, enter into one or more amendments to the Trust Agreement or the Lease for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission herein or to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make provisions with respect to matters or questions arising thereunder provided such action shall not, in the judgment of the Trustee (with respect to which the Trustee may rely on an opinion of counsel), materially adversely affect the interests of the Owners of the Certificates;

(b) To grant or confer upon the Owners of the Certificates any additional rights, remedies, power or authority that may lawfully be granted or conferred upon them;

(c) To comply with the requirements of any State or federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder;

(d) To provide for the appointment of a successor trustee or co-trustee pursuant to the terms hereof;

(e) To permit: (i) if lawful, the issuance of Certificates in book-entry form not evidenced by physical Certificates, or (ii) Certificates in bearer form if, in the opinion of Bond Counsel, such action will not cause the interest component of any Lease Payment to become includable in the gross income of the Owners of the Certificates thereof for federal income tax purposes;

(f) To subject to the Trust Agreement additional revenues, properties or collateral; or

(g) To issue Additional Certificates as provided in the Trust Agreement.

## THE GROUND LEASE

The following is a summary of certain provisions of the Ground Lease. This summary does not purport to be complete, and reference is made to the full text of the Ground Lease for a complete recital of its terms.

The County, pursuant to the Ground Lease, has leased the Land from the Trustee for a term commencing on March 1, 2003 and ending on December 1, 2023 (unless the Lease Payments have not been fully paid by that date, in which event, the term of the Ground Lease is automatically extended to December 1, 2033), for the purpose of (i) acquiring and constructing the Facilities on the Land. (ii) maintaining the Facilities, (iii) access, ingress, and egress to the Facilities, and (iv) other purposes as set forth therein.

## TAX MATTERS

In the opinion of Lindquist & Vennum P.L.L.P., as Bond Counsel, on the basis of laws in effect on the date of issuance of the Series 2008A Certificates, the interest component of the Lease Payments to be received by the Owners of the Series 2008A Certificates is not includible in gross income for federal income tax purposes. The interest component of the Lease Payments to be received by the Owners of the Series 2008A Certificates is includible in gross income for South Dakota tax purposes when the recipient is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. In rendering its opinion, Bond Counsel will rely on certain covenants and representations on the part of the County concerning the nature and cost of the facilities being financed from proceeds of the Series 2008A Certificates and the application and investment of proceeds of the Series 2008A Certificates. Moreover, certain provisions of the Internal Revenue Code of 1986, as amended (the Code), impose continuing requirements that must be met after the issuance of the Series 2008A Certificates in order for interest thereon to be and remain not includible in federal gross income. Noncompliance with such requirements by the County may cause the interest component of the Lease Payments to be received by the Owners of the Series 2008A Certificates to be includible in federal gross income, retroactive to the date of issuance of the Series 2008A Certificates, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of the Series 2008A Certificates or for an increase in the interest rate on the Series 2008A Certificates in the event that interest on the Series 2008A Certificates becomes includible in federal gross income.

The interest component of the Lease Payments to be received by the Owners of the Series 2008A Certificates is not an item of tax preference includible in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers, but is includible in book income or in earnings and profits in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax. The interest component of the Lease Payments to be received by the Owners of the Series 2008A Certificates may be includible in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includible in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent (15%) of the interest component of the Lease Payments to be received by the Owners of the Series 2008A Certificates that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account the interest component of the Lease Payments to be received by the Owners of the Series 2008A

Certificates in determining the taxability of such benefits. Passive investment income, including the interest component of the Lease Payments to be received by the Owners of the Series 2008A Certificates, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent (25%) of its gross receipts is passive investment income.

The County will designate a portion of the Lease and the Series 2008A Certificates as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, and financial institutions described in Section 265(b)(5) of the Code may treat the Series 2008A Certificates for purposes of Sections 265(b)(2) and 291 (e)(1)(B) of the Code as if they were acquired on August 7, 1986. Noncompliance with certain continuing requirements of the Code referred to above, however, may cause the Series 2008A Certificates to lose their status as "qualified tax-exempt obligations" retroactive to the date of issuance of the Series 2008A Certificates.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest with respect to the Series 2008A Certificates. Prospective purchasers or owners of the Series 2008A Certificates should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income.

**Original Issue Discount**

The initial public offering price of the Series 2008A Certificates maturing on December 1, 2013, June 1, 2017 and December 1, 2018 (the "Discounted Certificates") is less than the principal amount payable thereon at maturity. As a result, the Discounted Certificates will be considered to be issued with original issue discount. The difference between the initial public offering price of each maturity of the Discounted Certificates as set forth on the inside cover page of this Official Statement (assuming it is the first price during the initial offering (the "Issue Price") at which a substantial amount of such maturity is sold to the public), and the principal amount payable at maturity of the Discounted Certificates will be treated as "original issue discount." With respect to a taxpayer who purchases a Discounted Certificate in the initial public offering at the Issue Price and who holds such Discounted Certificate to maturity, the full amount of original issue discount will constitute interest which is not includable in the gross income of the owner of such Discounted Certificate for federal income tax purposes and such owner will not, under present federal income tax law, realize taxable capital gain upon payment of such Discounted Certificate upon maturity.

The original issue discount on each of the Discounted Certificates is treated as accruing daily over the term of such Discounted Certificate on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending on June 1 and December 1 (with straight line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discounted Certificates, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discounted Certificates. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discounted Certificates (including sale, redemption or payment at maturity). An owner of a Discounted Certificate who disposes of such Discounted Certificate prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discounted Certificate prior to maturity.

As described above regarding tax-exempt interest, a portion of the original issue discount that accrues in each year to an owner of a Discounted Certificate may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the original issue discount will be included in the calculation of the corporation's alternative minimum tax liability and the branch profits tax liability. Corporate owners of any Discounted Certificates should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or a branch profits tax liability although the owners of such Discounted Certificates will not receive a corresponding cash payment until a later year.

Owners who purchase Discounted Certificates in the initial public offering but at a price different than the Issue Price should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Certificates.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discounted Certificates. Owners who do not purchase Discounted Certificates in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Certificates.

Owners of Discounted Certificates should consult their own tax advisors with respect to the state and local tax consequences of owning the Discounted Certificates. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discounted Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

**Original Issue Premium**

The Series 2008A Certificates maturing on June 1, 2009 and December 1, 2009 (the "Premium Certificates") are being sold at a price greater than the principal amounts payable on such Series 2008A Certificates at maturity. To the extent that a purchaser of a Premium Certificate acquires a Premium Certificate at a price greater than the principal amount payable at maturity, such excess may be considered "amortizable bond premium" under Section 171 of the Code. In general, any amortizable bond premium with respect to a Premium Certificate must be amortized under the Code. The amount of premium so amortized will reduce the owner's basis in such Premium Certificate for Federal income tax purposes, and such amortized premium is not deductible for Federal income tax purposes. Purchasers should consult their own tax advisors as to the computation and treatment of such amortizable bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption, maturity, receipt or payment or other disposition of a Premium Certificate.

## RATING

Moody's Investors Service, Inc. has assigned its municipal bond rating of "Aa3" to the Series 2008A Certificates.

Any explanation of the significance of the rating may be obtained from Moody's Investors Service, 99 Church Street, New York, New York 10007, telephone (212) 553-0300. There is no assurance that a rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's Investors Service if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price or marketability of the Series 2008A Certificates.

## UNDERWRITING

The Underwriter will purchase the aggregate principal amount of the Series 2008A Certificates upon their original issuance and delivery at a purchase price of $5,755,555.05 (reflecting an underwriter's discount of $40,600.00 and a net original issue discount of $3,844.95). The Underwriter will purchase all of the Series 2008A Certificates offered hereby if any of the Series 2008A Certificates are purchased.

The Series 2008A Certificates are being offered for sale at the prices set forth on the inside cover page of this Official Statement, which prices may be changed by the Underwriter from time to time without notice. The Series 2008A Certificates may be offered and sold to dealers, and dealers acquiring Series 2008A Certificates for their own account or an account managed by them at prices lower than public offering prices.

## CONTINUING DISCLOSURE

Recent amendments to Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 impose continuing disclosure obligations on the issuers of certain state and municipal securities to permit participating underwriter to offer and sell the issuers' securities. Pursuant to Rule 15c2-12(b)(5)(i), the County will enter into a Continuing Disclosure Agreement with the Trustee, for the benefit of the holders of the 2008A Certificates, whereby the County will agree to provide annual reports to each Nationally Recognized Municipal Securities Information Repository and to any State Repository, as designated for purposes of Rule 15c2-12. The annual reports will consist of annual audited financial statements of the County and an annual update of all

material financial and operating data of the County contained in Appendix B and Appendix C to this Official Statement. The Trustee will provide timely notice to each Nationally Recognized Municipal Securities Information Repository and to any State Repository, as designated for purposes of Rule 15c2-12 of any failure of the County to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement.

The County will also agree in the Continuing Disclosure Agreement to provide timely notice to each Nationally Recognized Municipal Securities Information repository and to any State Repository, as designated for purposes of Rule 15c2-12 of the occurrence of any of the events listed below, if material:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions or events affecting the tax-exempt status of the security;

(7) Modifications to rights of security holders;

(8) Bond calls;

(9) Defeasances;

(10) Release, substitution or sale of property securing repayment of the securities; and

(11) Rating changes.

The County represents that it is current on its continuing disclosure requirements.

## CERTAIN LEGAL MATTERS

The validity of the Lease and the Series 2008A Certificates, the tax-exempt status of the interest component of the Lease Payments and certain other matters will be passed upon by Lindquist & Vennum P.L.L.P., Minneapolis, Minnesota. Copies of such opinion will be available at the time of delivery of the Certificates. Certain legal matters will be passed upon for the County by its counsel, Jay Alderman, Esq., Deputy State's Attorney.

## LITIGATION AND CLAIMS

There is no litigation of any nature now pending or threatened questioning the organization of the County, the right of its present officials to hold their respective offices, or the right, power and authority of the County to enter into the Lease or to levy and collect taxes for its repayment.

## ENFORCEABILITY OF OBLIGATIONS

On the closing date for delivery of the Series 2008A Certificates to the Underwriter thereof, Lindquist & Vennum P.L.L.P., Minneapolis, Minnesota, Bond Counsel, will deliver their opinion dated the date of such delivery that the Series 2008A Certificates, the Lease, the Ground Lease and the Trust Agreement are valid and legally binding agreements, enforceable in accordance with their terms, respectively, qualified only to the extent that the enforceability of the Series 2008A Certificates, the Trust Agreement, the Ground Lease and the Lease may be limited by laws affecting remedies and by bankruptcy or insolvency or other laws affecting creditors' rights generally.

Bond Counsel has not examined nor attempted to examine or verify any of the financial or statistical statements, or data contained in this Official Statement, and will express no opinion with respect thereto.

## MISCELLANEOUS

Any statements made in this Official Statement, including Appendix A, involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representations are made that any of the estimates will be realized.

The references herein to the Trust Agreement, the Lease, and other documents referred to herein are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to such documents for full and complete statements of such provisions.

**APPENDIX A**
**DEFINITIONS**

As used in the Lease, the Trust Agreement and the Ground Lease described herein, the following terms have the meanings indicated below:

*Act of Bankruptcy* shall mean any of the following events:

(i) The County shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the County or of all or a substantial part of either of their property, (b) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) A proceeding or case shall be commenced, without the application or consent of the County, as the case may be, in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or the composition or adjustment of debts, of the County (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the County or of all or any substantial part of the assets of the County, or (c) similar relief in respect of the County under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case has not been dismissed within sixty (60) days of the filing thereof.

*Authorized Newspapers* shall mean a financial paper or a newspaper of general circulation in Pennington County, South Dakota.

*Authorized Officer* when used with respect to the County, shall mean the County Auditor or any other person who is designated in writing by the County Auditor as an Authorized Officer for purposes of the Trust Agreement. The term "Authorized Officer," when used with respect to the Trustee, means any Vice President and/or trust officer who is authorized to take the action in question on behalf of the Trustee.

*Construction Costs* all costs of payment of or reimbursement for, acquisition, renovation, construction, installation and financing of the Facilities, including but not limited to, administrative costs, engineering costs, costs of feasibility, environmental and other reports, inspection costs, permit fees, filing and recording costs, costs of obtaining title insurance or a title opinion, printing costs, reproduction and binding costs, legal fees and charges, professional consultant fees, and charges and fees in connection with the foregoing; if the Certificates are secured by bond insurance or other credit enhancement, then, to the extent permitted by the Code, the initial premium or fee and any premium or fee paid during the construction of the Facilities, for such bond insurance or other credit enhancement shall be treated as part of the Construction Costs.

*Cost of Issuance* shall mean all fees and expenses incurred by the County in connection with the execution and delivery of the Lease and the issuance of the Certificates, including, but not limited to, costs of preparing and printing the Certificates, the Lease, the Trust Agreement, the Official Statement relating to the Certificates, and related documents; legal fees (including those of counsel to the Trustee, the County and the Underwriter); Rating Agency fees; bond insurance and the Trustee's initial fees.

*Facilities* shall mean the buildings, structures and improvements now or hereafter located on the Land.

*First Amendment to Lease* shall mean the First Amendment to Lease-Purchase Agreement, dated as of March 1, 2008, by and between the County and the Trustee.

*First Supplemental Declaration of Trust* shall mean the First Supplemental Declaration of Trust, dated as of March 1, 2008 by and between the Trustee and joined in by the County.

*Fiscal Year* shall mean the 12-month fiscal period of the County, which commences on January 1 in every year and ends on December 31 of that year.

*Ground Lease* shall mean the Ground Lease Agreement, dated as of March 1, 2003, between the County and the Trustee.

*Interest* shall mean the portion of any Lease Payment designated as and comprising interest as shown on Exhibit B to the Original Lease and Exhibit A to the First Amendment to Lease.

*Land* shall mean the real property described on Exhibit A to the Lease.

*Lease* shall mean the Original Lease, as amended and supplemented by the First Amendment to Lease.

*Lease Payment* shall mean the payment due from the County to the Trustee on each Payment Date during the term of the Lease, as shown on Exhibit B to the Lease and Exhibit A to the First Amendment to Lease.

*Net Proceeds* shall mean any insurance proceeds paid with respect to the Facilities remaining after payment therefrom of all expenses incurred in the collection thereof.

*Original Lease* shall mean the Lease-Purchase Agreement, dated as of March 1, 2003, between the Trustee, as lessor, and the County, as lessee.

*Outstanding* shall mean the term "Outstanding," when used with reference to the Certificates and as of any particular date, means all Certificates theretofore delivered, except: (a) any Certificate canceled or fully paid by the Trustee at or before said date; (b) any Certificate in lieu of or in substitution for which another Certificate shall have been delivered pursuant to the Trust Agreement; and (c) for the sole purpose of determining the percentage of Certificate Owners consenting to an amendment of the Trust Agreement or authorizing any action by the Trustee or the exercise of any remedy hereunder, any Certificate owned by the County or any of its departments, agencies, institutions, instrumentalities or political subdivisions. For all other purposes, Certificates owned by the County or any such entity which are not described in (a) and (b) shall be treated as Outstanding hereunder.

*Owner* shall mean the terms "Owner," "Certificate Owner" or "Owner of Certificates" or any similar term, when used with respect to the Certificates, mean the registered owner of any Outstanding Certificate.

*Payment Date* shall mean the third Business Day preceding the end of May and November in each year.

*Permitted Investments* shall mean to the extent permitted by applicable law:

(a) (1) bonds or interest bearing notes or obligations of the United States or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

(2) Securities either directly or indirectly guaranteed by the United States.

(3) Repurchase agreements fully collateralized by securities described in (a)(l) or (2) meeting the requirements of Sections 4-5-6 and 4-5-9 South Dakota Codified Laws.

(4) Shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a)(1) and (2) and repurchase agreements described in (a)(3).

(5) Time deposits and interest-bearing accounts with any institution constituting a "qualified public depository" under Chapter 4-6A, South Dakota Codified Laws.

(b) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States;

(c) bonds. consolidated bonds, collateral trust debentures. consolidated debentures or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan act, as amended: debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended: bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act. stocks. bonds. debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act. as amended: bonds of any federal home loan bank established under said Act. obligations of the Federal Home Loan Mortgage Corporation:

(d) direct and general obligations of any state of the United States or any municipality or political subdivision of such state. if such obligations are rated in the highest rate category by Standard & Poor's Corporation or Moody's Investors Service. Inc.;

(e) bills of exchange or time drafts drawn on and accepted by a commercial bank. otherwise known as bankers acceptances. which are eligible for purchase by the Federal Reserve System:

(f) negotiable certificates of deposit issued by a nationally or state chartered bank which are fully insured by the Federal Deposit Insurance Corporation: and

(g) guaranteed investment contracts of financial institutions rated in one of the two highest rating categories by Standard & Poor's Corporation or Moody's Investors Service, Inc.

*Principal* shall mean the portion of any Lease Payment designated as principal in Exhibit B to the Lease.

*Principal Office* means the principal office of the Trustee situated in St. Paul, Minnesota, or any office so designated by a successor.

*Resolution* means the resolution adopted by the Board of County Commissioners of the County on January 22, 2008, relating to the issuance of the Series 2008A Certificates.

*Series 2003 Certificates* shall mean the certificates of participation prepared and delivered by the Trustee pursuant to the Original Trust Agreement.

*Series 2008A Certificates* shall mean the $5,800,000 Limited Tax General Obligation Certificates dated their date of issuance.

*Trust Agreement* shall mean the Declaration of Trust, dated as of March 1, 2003, as amended and supplemented by the First Supplemental Declaration of Trust, dated as of March 1, 2008 by the Trustee and joined in by the County.

*Underwriter* shall mean Dougherty & Company LLC and its successors and assigns.

*(This page has been left blank intentionally.)*

**APPENDIX B**
**INFORMATION CONCERNING THE COUNTY**

**PENNINGTON COUNTY**

**BOARD MEMBERS**

Brenda Young, Chair
Nancy Trautman, Vice Chair
James Kjerstad, Commissioner
Ethan Schmidt, Commissioner
Gale Holbrook, Commissioner

**ELECTED OFFICIALS AND COUNTY STAFF**

Julie A. Pearson, Auditor
Don Holloway, Sheriff
Glenn Brenner, State's Attorney
Janet Sayler, Treasurer
Jay Alderman, Deputy States Attorney

## SUMMARY OF COUNTY INFORMATION

| | December 31, 2007 |
|---|---|
| Full & True Value including Utilities | $6,220,902,339 |
| Direct General Obligation Debt | -0- |
| COP/Bonds | 16,395,000. |
| Lease Purchase Obligations | 3,694,447. |
| Population 2000 Census | 88,565 |
| Area in Square Miles | 2,776 |

Pennington County (the "County") is located in Western South Dakota. Rapid City, the County seat, is located on I-90 and U.S. Highways 14 and 16 and is the second largest city in the State of South Dakota.

The County was organized in 1877 and is governed by a Board of Commissioners consisting of 5 members elected by districts for 4-year terms.

Following are population figures for the County and incorporated municipalities in the County according to the U.S. Census:

| | 2000 | 1990 | 1980 | 1970 |
|---|---|---|---|---|
| Pennington | 88,565 | 81,343 | 70,361 | 59,349 |
| Box Elder | 2,841 | 2,680 | 3,186 | 607 |
| Hill City | 780 | 650 | 535 | 389 |
| Keystone | 311 | 232 | 295 | ---- |
| New Underwood | 616 | 553 | 517 | 416 |
| Quinn | 44 | 72 | 80 | 105 |
| Rapid City | 59,607 | 54,523 | 46,692 | 43,836 |
| Wall | 818 | 834 | 542 | 786 |
| Wasta | 75 | 82 | 99 | 127 |

**Employers & Pension Plans**

The County currently employs approximately 608 persons. The South Dakota Retirement System administered by the State of South Dakota covers employees of the County. Members' contributions and credited interest are 100% vested and may be withdrawn upon termination of employment. The County's total cost of the plan for the year ended December 31, 2006 was $1,462,105.84.

Class A members include all employees other than judicial and public safety. They are required by state statute to contribute 6% of their gross salary. The County by statute is required to match all employee contributions.

Class B members include Public Safety members that are described as deputies and adult & juvenile correctional officers. They are required to contribute 8% of their gross salary. The County by statute is required to match all employee contributions.

Additional information is contained in the "Notes to the Financial Statements" relating to the 2005 and 2006 audited financial statements set forth in APPENDIX C to this Official Statement.

| Contribution Information | 2005 | 2006 |
|---|---|---|
| Contribution Requirements Total Employee & Employer | $2,667,646 | $2,924,212 |
| County Contributions | 1,333,823 | 1,462,106 |
| Percent of Covered Payroll | 50% | 50% |
| Employee Contributions | 1,333,823 | 1,462,106 |
| Percent of Covered Payroll | 50% | 50% |

**Valuations**

All property subject to taxation is assessed annually according to value on the first day of November proceeding the assessment year. The Director of Equalization compiles an assessment roll for each taxing district within the county. Currently assessment rolls are compiled for 6 school districts, 2 water districts, 20 civil townships, 8 cities and towns, 7 sewer districts, 96 road districts, 2 ambulance districts, 15 fire districts, library and the county as a whole. The assessment roll is reviewed and adjusted for errors and omissions by each municipality and township. Upon completion of local and county boards of equalization, the tax roll is factored to an 85% median level of assessment using the preceding year's sales as a benchmark. This represents full and true value for tax purposes and is levied upon by the County Auditor in mill rates or dollars per thousand of value. From 2006 to 2007 the tax base of the County increased by 5.5%.

For school general fund levying purposes there are four classes of property; agricultural, non-agricultural acreages, owner occupied residential and other non-agricultural. The general fund levies for school purposes are set in statute annually to compensate for both growth and inflation.

| **The County's Values** | **2007 pay 2008**<br>Full & True Value |
|---|---|
| Agricultural – Outside Corp Limits | $173,733,410 |
| Owner Occupied – Outside Corp Limits | 1,140,682,068 |
| Nonagricultural Z – Outside Corp Limits | 7,173,153 |
| Nonagricultural – Outside Corp Limits | 431,764,160 |
| Mobile Homes – Outside Corp Limits | 7,629,369 |
| Mobile Homes – Owner Occupied Outside Corp Limits | 19,769,600 |
| Agricultural – Inside Corp Limits | 1,205,178 |
| Owner Occupied – Inside Corp Limits | 2,124,997,859 |
| Nonagricultural – Inside Corp Limits | 2,153,408,155 |
| Nonagricultural Z – Inside Corp Limits | 3,510,834 |
| Mobile Homes – Inside Corp Limits | 5,845,879 |
| Mobile Homes Owner Occupied – Inside Corp Limits | 15,943,277 |
| Utilities | 135,239,397 |
| Total All Property | $6,220,902,339 |

(Source: Pennington County (includes Tax Increment District Values)

**Historic Taxable Values**

The following table illustrates the historical full & true value and taxable values for the County (excluding tax increment districts) for the last ten (10) years:

| Tax Year | Full & True Real Property Value | Taxable Percent | Taxable Value Real Property | Plus Utilities | Total Taxable Value |
|---|---|---|---|---|---|
| 2007 | $6,085,662,942 | 100% | $6,085,662,942 | $135,239,397 | $6,220,902,339 |
| 2006 | 5,684,183,819 | 100 | 5,684,183,819 | 154,025,435 | 5,838,209,254 |
| 2005 | 5,111,448,991 | 100 | 5,111,448,991 | 158,253,803 | 5,269,702,794 |
| 2004 | 4,700,944,267 | 100 | 4,700,944,267 | 168,698,408 | 4,869,642,675 |
| 2003 | 4,172,289,978 | 100 | 4,172,289,978 | 172,163,153 | 4,344,453,131 |
| 2002 | 3,751,224,238 | 100 | 3,751,224,238 | 152,535,825 | 3,903,760,063 |
| 2001 | 3,291,929,650 | 100 | 3,291,929,650 | 133,530,663 | 3,425,460,313 |
| 2000 | 3,115,731,072 | 100 | 3,115,731,072 | 120,156,152 | 3,235,887,224 |
| 1999 | 2,885,448,539 | 100 | 2,885,448,539 | 121,184,926 | 3,006,633,465 |
| 1998 | 2,615,933,719 | 100 | 2,615,933,719 | 105,554,248 | 2,721,487,967 |

(Source: Pennington County

**County Consolidated Tax Dollars Levied**

| Year | County General | Emergency Disaster | County Fair | Accumulated Building |
|---|---|---|---|---|
| 2007 | $25,347,336.46 | | $420,453.45 | $1,681,813.80 |
| 2006 | 22,173,952.26 | -0- | 949,759.43 | 2,751,969.24 |
| 2005 | 22,054,559.94 | -0- | -0- | 2,073,373.29 |
| 2004 | 20,649,643.90 | $14,866.56 | -0- | 2,009,862.23 |
| 2003 | 19,672,118.23 | -0- | -0- | 1,655,671.08 |
| 2002 | 18,312,538.46 | -0- | -0- | 1,777,381.96 |
| 2001 | 17,269,115.62 | -0- | -0- | 1,249,950.47 |
| 2000 | 16,190,761.73 | -0- | -0- | 1,246,787.34 |

Source: BUD040 Report – annual tax levy verification report

**Largest Taxpayers**

The fifteen largest taxpayers of the County for the tax year 2007 payable in 2008 are listed below:

| Owner's Name | Type of Business | Taxable Value | Percent of Total |
|---|---|---|---|
| SM Rushmore Mall | Mall/Retail | $42,668,832 | 0.68% |
| Wal-Mart | Retail | 14,139,557 | 0.23 |
| Rushmore Plaza | Hotel | 14,009,414 | 0.22 |
| Perkins Delaware LLL | Mall/Retail | 13,198,099 | 0.21 |
| Regency RC Ventures | Hotel | 11,613,864 | 0.19 |
| Lacrosse Investors | Apartment Complex | 9,667,200 | 0.16 |
| Lowe's Home Centers | Retail | 9,565,056 | 0.15 |
| Physicians RE. LLP | Medical Office | 9,468,293 | 0.15 |
| Menards Inc | Retail | 9,456,801 | 0.15 |
| Century Medical Plaza | Medical Offices | 9,300,668 | 0.15 |
| Black Hills Surgery Center | Medical Facility | 8,405,266 | 0.14 |
| Conseco Finance Service Group | Financial | 8,384,563 | 0.13 |
| SCI Systems | Computer Production | 7,593,859 | 0.12 |
| Norwest Banks | Banking | 7,412,007 | 0.12 |
| Tri-City Assoc | Mall/Retail | 7,180,997 | 0.11 |
| | | | 2.91% |

**Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1st of each year. Taxes are levied and are due and payable in two installments on or before April 30th and October 31st of each year.

The County Treasurer is responsible for collection of all taxes that are included on the tax list. Once collected, the County Auditor apportions the money and credits the appropriate fund. The County Auditor is mandated to remit all collections to the appropriate taxing entity by the 20th of the month following collection.

**Mill Rates or Dollars per Thousand of Value – Owner Occupied Levy**

| Levy Year | Taxable Percent | County | Rapid City School | Water | City of Rapid City | Total Mill Levy |
|---|---|---|---|---|---|---|
| 2007 | 100% | 4.5700 | 9.1400 | .0300 | 2.9600 | 16.7000 |
| 2006 | 100 | 4.5471 | 9.6045 | .0281 | 2.9680 | 17.1477 |
| 2005 | 100 | 4.6746 | 9.9925 | .0297 | 3.0322 | 17.7290 |
| 2004 | 100 | 4.7281 | 10.1704 | .0312 | 3.0595 | 17.9892 |
| 2003 | 100 | 4.9092 | 10.4134 | .0331 | 3.1493 | 18.5050 |
| 2002 | 100 | 5.1463 | 10.7729 | .0350 | 3.3041 | 19.2583 |
| 2001 | 100 | 5.4063 | 11.2480 | .0373 | 3.4685 | 20.1601 |
| 2000 | 100 | 5.3888 | 10.0959 | .0373 | 3.4252 | 18.9472 |
| 1999 | 100 | 5.4559 | 12.0097 | .0378 | 3.4801 | 20.9835 |
| 1998 | 100 | 5.7520 | 11.9892 | .0399 | 3.6595 | 21.4406 |

Source: Pennington County

**Tax Collections – County Consolidated**

| | Amount of Levy | Collected First Year Amount | Collected First Year Percentage | Collected as of December 31, 2006 Amount | Collected as of December 31, 2006 Percentage |
|---|---|---|---|---|---|
| 2005/06 | $24,127,800 | $23,653,763 | 98.03% | $23,653,763 | 98.03% |
| 2004/05 | 22,673,572 | 22,446,253 | 98.99 | 22,622,220 | 99.77 |
| 2003/04 | 21,327,789 | 21,177,035 | 99.29 | 21,343,851 | 100.00 |
| 2002/03 | 20,482,272 | 20,244,630 | 98.84 | 20,244,630 | 98.84 |
| 2001/02 | 19,094,069 | 18,776,561 | 98.34 | 18,995,029 | 99.48 |
| 2000/01 | 17,714,942 | 17,406,150 | 98.25 | 17,680,238 | 99.80 |
| 1999/00 | 16,607,540 | 16,496,836 | 98.62 | 16,708,096 | 100.00 |
| 1998/99 | 15,968,085 | 15,814,609 | 99.03 | 15,814,609 | 99.03 |
| 1997/98 | 15,139,626 | 15,083,066 | 99.62 | 15,123,854 | 99.89 |
| 1996/97 | 14,638,122 | 14,528,524 | 99.25 | 14,620,950 | 99.88 |
| 1995/96 | 14,058,904 | 13,845,852 | 98.48 | 14,062,357 | 100.00 |
| 1994/95 | 13,483,630 | 13,329,174 | 98.85 | 13,479,718 | 99.97 |

**Indirect Debt – General Obligation**

| | Percent of District's Taxable Value within the County | Debt Outstanding 12/31/06 | Applicable to County |
|---|---|---|---|
| Municipalities: | | | |
| Box Elder | 99.96% | $1,505,502 | $1,504,900 |
| Hill City | 100.00 | 457,010 | 457,010 |
| Keystone | 100.00 | 3,538,208 | 3,538,208 |
| New Underwood | 100.00 | | |
| Quinn | 100.00 | | |
| Rapid City | 100.00 | | |
| Wasta | 100.00 | | |
| Wall | 100.00 | 338,980 | 338,980 |
| School Districts (including Mobile Home Values): | | | |
| Douglas | 74.96% | | |
| Hill City | 100.00 | 3,195,000 | 3,195,000 |
| New Underwood | 99.82 | 655,000 | 653,821 |
| Rapid City | 95.16 | 23,945,000 | 22,786,062 |
| Wall | 99.98 | 1,420,000 | 1,419,716 |
| Custer | 5.74 | 8,325,000 | 477,855 |

**Debt Limit**

The total indebtedness of the County may not exceed 5% of the actual assessed value of property within the County.

| | |
|---|---|
| 2007 Valuation (including Utilities) | $6,220,902,339 |
| | x 5% |
| Maximum | $ 311,045,117 |
| Less: Direct General Obligation Debt | -0- |
| Certificates of Participation (including the Series 2008A Certificates) | $21,895,000 |
| Lease Purchase Obligations | 3,694,447 |
| Available Margin | $ 285,455,670 |

## Debt Ratios

| | Amount | Per Capita (1) | Taxable Value |
|---|---|---|---|
| Direct General Obligation Debt | $21,895,000 | 247.23 | 0.35% |
| Indirect General Obligation Debt | 34,371,552 | 388.09 | 0.55% |

(1) Based on the 2000 census population of 88,565

## The County Revenues & Expenditures

### Revenue Collected:

| Fund | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| County General | $27,366,776 | $29,102,540 | $19,280,804 | 33,811,963 | 34,838,243 | 40,602,900 |
| Road Bridge Fund | 3,567,414 | 3,700,965 | 2,699,248 | 3,841,505 | 3,792,621 | 4,755,540 |
| Emergency Disaster | 288 | 90 | 3 | 29,127 | 21,123 | 19,700 |
| Unorganized Road | 1,731,779 | 1,834,755 | 1,194,061 | 1,964,554 | 2,031,097 | 2,154,418 |
| Library | $120,393 | $315,945 | 181,128 | 340,773 | 349,197 | 365,862 |
| Drug Seizure | -0- | 9,512 | -0- | 169,472 | 156,742 | 11,642 |
| Fire Administration | 183,685 | 554,206 | 465,281 | 214,321 | 229,884 | 273,165 |
| County Fair | -0- | -0- | -0- | -0- | -0- | -0- |
| E 911 | 739,278 | 780,042 | 620,917 | 985,599 | 895,737 | 212,888 |
| Title 3 | 202,747 | 224,565 | 5,330 | 212,941 | 216,020 | 202,041 |
| Emergency Management | 95,862 | 100,679 | 198,559 | 826,831 | 1,439,600 | 996,622 |
| Hazardous Materials | 8,515 | 13,510 | 19,489 | 5,753 | 6,201 | 15,929 |
| Domestic Abuse | 45,160 | 46,464 | 40,073 | 47,309 | 43,953 | 41,552 |
| Accumulated Building | 1,470,009 | 1,579,104 | 1,054,686 | 1,757,185 | 2,113,608 | 2,188,883 |
| Capital Projects | 72,707 | 3,608,123 | 10,246,094 | 2,596,246 | 443,553 | 165,039 |
| Health Care Trust | 1,580,889 | 1,826,993 | 1,573,200 | 2,598,782 | 3,093,590 | 2,873,879 |
| **Total** | $37,185,502 | $43,697,493 | $38,595,165 | $49,402,361 | $49,671,169 | $54,880,060 |

### Expenditures:

| Fund | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| County General | $24,739,525 | $25,536,473 | $23,916,903 | 30,081,893 | 32,710,939 | 38,019,286 |
| Road & Bridge | 8,658,579 | 5,819,142 | 5,645,630 | 6,425,911 | 6,043,355 | 8,213,890 |
| Emergency Disaster | -0- | -0- | -0- | 58,053 | 21,799 | 19,700 |
| Unorganized Road | -0- | -0- | -0- | -0- | -0- | -0- |
| Library | 111,800 | 257,206 | 221,078 | 294,228 | 317,187 | 329,561 |
| Drug Seizure | 16,385 | 144 | 5,691 | 38,479 | 117,850 | 49,071 |
| Fire Administration | 139,596 | 511,255 | 414,361 | 388,818 | 185,054.45 | 189,932 |
| E 911 | 799,211 | 688,339 | 723,310 | 769,044 | 865,022 | 995,301 |
| Title 3 Monies | 0.00 | 3,915 | 624,738 | 7,360 | 210,260 | 23,146 |
| Emergency Management | 118,952 | 127,470 | 236,285 | 844,194 | 1,456,080 | 1,059,327 |
| Hazardous Materials | 8,953 | 11,433 | 8,929 | 3,522 | 4,998 | 13,232 |
| Domestic Abuse | 51,545 | 46,832 | 32,855 | 46,375 | 46,785 | 41,135 |
| Accumulated Building | 1,351,006 | 969,239 | 643,237 | 1,646,412 | 313,410 | 1,804,024 |
| Capital Projects | 1,113,628 | 2,764,529 | 3,888,996 | 9,605,747 | 5,348,706 | 1,789,250 |
| Health Care Trust | 1,759,112 | 1,499,464 | 1,009,103 | 2,162,210 | 3,069,601 | 2,848,177 |
| Total | $38,868,291 | $38,235,441 | $37,371,087 | $52,372,246 | $50,711,046 | $55,395,035 |

Note. The County is required by state law to be audited annually by the Department of Legislative Audit. Audits have been completed through December 31, 2006. The County's financial statements are prepared in accordance with GAAP.

## Year End Cash Balances:

| Fund | December 31, 2004 | December 31, 2005 | December 31, 2006 |
|---|---|---|---|
| County General | $12,584,069.35 | $11,000,132.09 | $11,330,942.62 |
| Road & Bridge | 4,712,159.69 | 6,445,086.37 | 6,713,983.56 |
| Emergency Disaster | 333,976.14 | 332,994.63 | 329,213.76 |
| Library | 144,502.08 | 173,470.78 | 198,924.28 |
| Drug Seizure | 132,814.57 | 197,675.91 | 123,535.51 |
| Fire Administration | 152,895.03 | 164,511.87 | 263,408.61 |
| E 911 | 425,166.43 | 457,976.03 | 440,555.50 |
| Title 3 monies | 212,959.45 | 219,349.62 | 199,989.06 |
| Emergency Management | 173,235.47 | 226,049.27 | 233,346.61 |
| Hazardous Materials | 28,259.26 | 26,054.94 | 34,503.87 |
| Domestic Abuse | 3,130.00 | 17,570.00 | 6,775.38 |
| Accumulated Building | 1,183,571.94 | 2,269,793.89 | 1,426,833.64 |
| Capital Projects-Law Enforcement | 5,786,444.52 | 1,282,859.71 | 776,659.84 |
| Health Care Trust | 1,438,340.31 | 1,465,251.70 | 1,539,149.35 |
| Total | $27,311,524.24 | $24,278,776.81 | $23,617,821.59 |

## Basis of Accounting

All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting. The County's records are maintained in accordance with GAAP.

## Income

| | County 2003 | County 2004 | State of South Dakota 2004 |
|---|---|---|---|
| Per Capita Income | $29,160 | $26,361 | $30,617 |
| Average Earnings Per Job | 34,792 | 25,932 | N/A |

Source: U.S. Census Data, USD Data Center and South Dakota Economic Development

## Labor Statistics

| Year | County Average Annual Civilian Labor Force | Average Unemployment for County | Average Unemployment for the State of South Dakota |
|---|---|---|---|
| 2004 | 52,373 | 3.3% | 3.8% |
| 2003 | 51,222 | 3.3 | 3.6 |
| 2002 | 49,010 | 2.8 | 3.3 |
| 2001 | 48,315 | 3.1 | 3.3 |
| 2000 | 47,520 | 2.0 | 2.3 |
| 1999 | 46,650 | 2.5 | 2.9 |
| 1998 | 46,740 | 2.6 | 2.9 |
| 1997 | 45,190 | 3.1 | 3.1 |
| 1996 | 45,677 | 3.3 | 3.3 |
| 1995 | 44,708 | 3.0 | 2.9 |
| 1994 | 43,959 | 3.4 | 3.2 |
| 1993 | 42,297 | 3.8 | 3.8 |

Source: State Data Center of South Dakota

**Employment by Industry**

| | County | | South Dakota | |
|---|---|---|---|---|
| | 2005 | 2006 | 2005 | 2006 |
| Mining and Construction | 29 | 37 | 789 | 785 |
| Manufacturing | 3,468 | 3,420 | 39,833 | 41,393 |
| Trade, Transportation, Utility | 1,510 | 1,588 | 23,093 | 77,815 |
| Wholesale | 1,971 | 1,934 | 22,455 | 12,829 |
| Financial, Insurance, Real Estate | 3,018 | 3,206 | 28,063 | 29,228 |
| Information | 1,002 | 1,026 | 6,756 | 6,953 |
| Service | 21,138 | 21,489 | 129,232 | 131,939 |
| Government/Government Entity | 6,703 | 6,728 | 69,027 | 69,093 |
| Agriculture/Forestry/Fish | 123 | 137 | 3,181 | 3,314 |
| Construction | 4,017 | 4,060 | 21,003 | 21,832 |
| Retail | 8,003 | 8,034 | 49,276 | 49,220 |

Source: SD Dept of Labor

**Housing**

Housing demand has exceeded supply in recent years resulting in appreciation in value for existing homes. Platting and development of residential subdivisions is continuing at a brisk pace to meet demand. There are currently 32,325 residential units in the County not counting apartment units. The average taxable value of residential properties has also increased. The 2007 assessment role indicates an average assessed value per residential unit of approximately $137,268. For the 2003 the average was approximately $107,261 indicating an annual increase of almost 7% over this time period. The County believes that the increase in both the number and value of homes will continue for the foreseeable future.

**Major Employers**

The largest employers located within the County are:

| Employer | Product/Business | Number of Employees |
|---|---|---|
| Ellsworth Air Force Base | Military | 3,737 |
| Rapid City Regional Hospital | Health Care | 2,850 |
| Federal Government | Government | 2,616 |
| Rapid City School District | Education | 1,621 |
| City of Rapid City | Government | 1,385 |
| State of South Dakota | Government | 1,116 |
| SD National Guard | Government | 1,083 |
| Wal Mart/Sam Club | Sales | 926 |
| Pennington County | Government | 608 |
| Sanmina | Computer/Manufacturing | 600 |

Source: South Dakota Data Center

**Area Growth and Development**

The County has seen robust construction activity for a number of years. There have been a number of major projects completed or are in the planning stages.

In the Rapid City area residential housing demand has resulted in numerous developments. The completion of 5th Street to Catron Boulevard has opened up development opportunities that are being taken advantage. In addition, there are several large-scale developments in and around Rapid City including the Red Rocks Meadows subdivision and Canyon Springs Preserve Subdivision both involving upward of 100 new lots being platted and developed. Other communities in the county are also experiencing significant growth and development. Sunset

Ranch Subdivision between Box Elder and New Underwood offers over 100 new lots. Sunset Creek Estates in Hill City offers over 50 new lots. Prairie View Estates and Prairiefire subdivisions in the Rapid Valley area just east of Rapid City both offer over 50 new lots. All of the above mentioned new developments have numerous homes under construction and plans in place to expand. Residential development just north of the County in the Piedmont Valley of Meade County continues as well. This area is generally considered a "bedroom community" of Rapid City and offers both rural and subdivision housing opportunities for the working citizens in the area.

The commercial sector is also experiencing growth. Medical facilities have and are being constructed near the hospitals, capitalizing on the regional nature of the medical business. Rapid City Regional Hospital, being the anchor of the medical facilities in the region, is undertaking significant changes in their facilities. Besides purchasing and incorporating area small town hospitals and clinics they are also expanding in Rapid City. Building permits for the 2007 year total almost $21,000,000 for upgrades and new facilities.

Financial institutions continue to construct new facilities to serve the newly developed areas in all the communities in the County including Sentinal Credit Union in Rapid City, Black Hills Federal Credit Union in both Rapid City and Wall and First Western in Hill City.

Retail property development appears to be in almost a boom phase. New stand alone facilities include Carpet Mart, Ashley Furniture, Best Buy and Lowe's. A major development called Rushmore Crossing is currently undergoing site preparation. This complex will add thousands of square feet of new retail opportunities to the region with notable anchors being Scheels and Cabellas.

Tourism continues as an important industry in the region. Motel development is strong in the entire region, one including a new attraction for the area, the Watiki Waterpark. Holiday Inn Express motels have been constructed in both Hill City and Keystone as well. Quick service food outlets, including a Sonic have and are being developed too.

Manufacturing is beginning to make more of an impact in the Rapid City region as shown by the construction of facilities for Dakota Craft, Pepsi and an addition to the Coca-Cola plant in Rapid City. Additionally the state owned cement plant has been sold to a private company and is now on the tax rolls, adding some $25,000,000 to the tax base.

Apartment complexes continue to be a strong development opportunity. Notable additions include Pine Crest Village, Homestead Apartments, Harmony Heights and Stoney Creek. Office properties are also being developed. One of the crown jewels in this sector is the recent completion of the Western Gateway complex offering over 50,000 square feet of bank and upper scale offices.

Non-profit organizations with facilities offering enhanced lifestyle opportunities for residents are also expanding. The Rapid City library recently completed a major addition and renovation project. The Dahl Fine Arts Center is also in the process of completing an addition and renovation project that will enhance the ability of local artisans to both practice and present their wares and talents with a $5,000,000 Arts Education facility. The YMCA is also continuing its long term building project. In general the commercial sector construction activity in the County is strong and becoming more diversified.

With new development and growth comes the requirement for additional public sector investment. Work on Interstate 90 continues, adding increased access for commerce. The City of Rapid City is adding a large addition to the Civic Center. The local Economic Development Foundation recently completed a business incubator offering professional assistance to start-up businesses. The Air Force has also decided to consolidate its financial services center at Ellsworth Air Force Base which should result in several hundred new and professional jobs in the County, most likely permanently securing the base from consideration for future base closure. This is a major development in that the air base is the largest area employer. The County is in the process of expansion of its jail facilities and considering construction of additional office space to accommodate growth in the state court system. Regionally, the closed Homestake Gold Mine site in Lead, South Dakota was chosen as a national site for a large scale Deep Underground Science and Engineering Laboratory. Given that the South Dakota School of Mines and Technology exists in Rapid City it will be an exciting future for the development of new technologies and the related jobs for the

entire region. As a general statement public infrastructure construction is continuing and expanding at what seems like ever increasing rates.

**Building Permits**

| Year | Number of Residential Permits | Value | Number of Commercial Permits | Value |
|---|---|---|---|---|
| 2006 | 634 | $96,119,241 | 201 | $59,257,094 |
| 2005 | 761 | 99,597,017 | 197 | 42,494,076 |
| 2004 | 862 | 106,939,035 | 202 | 37,455,633 |
| 2003 | 624 | 36,286,781 | 263 | 7,464,090 |
| 2002 | 732 | 39,966,952 | 300 | 12,310,650 |
| 2001 | 702 | 34,507,654 | 248 | 8,144,933 |
| 2000 | 649 | 34,437,493 | 263 | 6,118,339 |
| 1999 | 682 | 23,193,356 | 566 | 63,493,317 |

Source: RC Growth Mgmt/Penn County Planning

**Medical**

Rapid City is a major medical care center for a five-state region, centered around the Rapid City Regional Hospital and the Indian Health Service Sioux San Hospital. Other smaller, independent medical facilities in the area include the Black Hills Surgery Center, The Heart Doctors, The Spine Center, Setliff Sinus Institute, Black Hills Eye Institute, and Regional Behavioral Healthcare. The following are some of the services provided:

- Acute Renal Dialysis
- Alcohol and Drug
- Cancer Care
- Coronary Care
- Emergency Department
- Home Care Unit
- Hospice
- Impatient Surgery
- Intensive Care Unit
- Neonatal Nursery
- Obstetrics
- Open Heart Surgery
- Outpatient Surgery
- Pediatric
- Psychiatric
- Radiology Therapy
- Rehabilitation

In addition, there are 23 long-term care and assisted living facilities in the area that have a total of 820 beds.

Source: SD data center, Wikepedia.org

**Banking**

Banking and financial institutions are available to area residents in Rapid City. Major banking institutions are: Wells Fargo, First Western Bank, US Bank National Association and Pioneer Bank and Trust. There are also several smaller banks and many Credit Unions serving the County. Year ending bank deposits are listed below for those institutions where balances could be obtained for the County branches.

| Bank | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|
| Wells Fargo | 318.330 | 325.141 | 362.711 | 385.967 | N/A | 384.277 | 272.157 | 290.469 |
| First Western Bank | 333.834 | 288.184 | 258.889 | 220.935 | 78.105 | 100.951 | 94.920 | 82.003 |
| US Bank National Assoc | 255.130 | 247.635 | 241.279 | 240.145 | 233.982 | 209.902 | - | - |
| Great Western Bank and Trust | 210.532 | 211.965 | 191.040 | 172.875 | 176.411 | 184.269 | 179.911 | 164.580 |
| Pioneer Bank and Trust | 134.860 | 123.138 | 116.141 | 172.875 | 176.411 | - | - | - |

(Deposits listed in Millions)

Source: FDIC Financial Reports

**Education**

The Rapid City School District operates 16 Elementary Schools, 5 Middle Schools and 3 Senior High Schools. The District employs 1050 certified personnel and has total enrollment figures as follows for fall 2007:

| Grade | Number of Students |
|---|---|
| K – 5 | 5,821 |
| 6 – 8 | 3,087 |
| 9 – 12 | 4,135 |
| Total | 13,043 |

Private and parochial education is also available at 10 schools.

The County also has five other school districts serving area residents.

| School System | Number of Students | Certified Staff |
|---|---|---|
| Douglas School System | 2,400 | 212 |
| Custer School System | 921 | 89 |
| Hill City School System | 480 | 48 |
| Wall Schools | 256 | 36 |
| New Underwood Schools | 291 | 24 |

Post-secondary education is available at the following schools:

Oglala Lakota College
National American University
Rapid City Regional Hospital
South Dakota School of Mines and Technology
South Dakota State University
University of South Dakota
Western Dakota Vocational Technical School

Source: All School Districts and Rapid City Chamber of Commerce

**APPENDIX C**
**AUDITED FINANCIAL REPORTS FOR 2006**

**PENNINGTON COUNTY, SOUTH DAKOTA**

*(This page has been left blank intentionally.)*

PENNINGTON COUNTY

AUDIT REPORT

For the Year Ended December 31, 2006

PENNINGTON COUNTY
COUNTY OFFICIALS
December 31, 2006

Board of Commissioners:

James Kjerstad, Chairman
Brenda Young
Nancy Trautman
Ethan Schmidt
Gale Holbrook

Auditor:

Julie Pearson

Treasurer:

Janet Saylor

State's Attorney:

Glenn Brenner

Register of Deeds:

Donna Mayer

Sheriff:

Don Holloway

PENNINGTON COUNTY
TABLE OF CONTENTS

Fiduciary Funds

As of December 31, 2006:



*Required Supplementary Information Other than MD&A:*

For the Year Ended December 31, 2006:



*Supplementary Information:*

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605)773-3595
FAX(605)773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

County Commission
Pennington County
Rapid City, South Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pennington County, South Dakota (County), as of December 31, 2006, and for the year then ended which collectively comprise the County's basic financial statements and have issued our report thereon dated August 31, 2007. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it relates to the discretely presented component unit is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>
In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

We consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2006-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the County in a separate communication dated August 31, 2007.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of Pennington County, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §__.320, this report is matter of public record and its distribution is not limited.

Martin L. Guindon, CPA
Auditor General

August 31, 2007

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

# REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

County Commission
Pennington County
Rapid City, South Dakota

Compliance
We have audited the compliance of Pennington County, South Dakota (County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Pennington County, South Dakota complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance
The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of Pennington County, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §__.320, this report is matter of public record and its distribution is not limited.

Martin L. Guindon

Martin L. Guindon, CPA
Auditor General

August 31, 2007

PENNINGTON COUNTY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

## SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

**Prior Federal Audit Findings:**

The prior audit report contained no written audit comments.

**Prior Other Audit Findings:**

The prior audit report contained no written audit comments.

## SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

**Summary of the Independent Auditor's Results:**

**a.** An unqualified opinion was issued on the financial statements.

**b.** No material weaknesses were disclosed by our audit of the financial statements and the major federal programs.

**c.** Our audit did not disclose any noncompliance which was material to the financial statements.

**d.** An unqualified opinion was issued on compliance with the requirements applicable to major programs.

**e.** Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).

**f.** The federal awards tested as major programs were:

| | | |
|---|---|---|
| 1. | Roads and School Cluster | |
| | Schools and Roads Grants to States | CFDA# 10.665 |
| | Schools and Roads Grants to Counties | CFDA# 10.666 |
| 2. | Child Nutrition Cluster | |
| | School Breakfast Program | CFDA# 10.553 |
| | National School Lunch Program | CFDA# 10.555 |
| 3. | Rural Domestic Violence and Child Victimization and Enforcement Grant Program | CFDA# 16.589 |
| 4. | Help America Vote Act Requirements Payments | CFDA# 90.401 |

**g.** The dollar threshold used to distinguish between Type A and Type B federal award programs was $300,000.

**h.** Pennington County qualified as a low-risk entity.

**Current Federal Audit Findings:**

There are no written current federal compliance audit findings to report.

**Current Other Audit Findings:**

***Internal Control-Related Findings – Significant Deficiencies:***

Financial Reporting Errors

Finding No. 2006-01:

Internal accounting controls over financial reporting for the year 2006 were inadequate resulting in inaccurate information being presented to users of the annual financial report.

Analysis:

We noted the following significant errors in the county's annual financial report for the year ended December 31, 2006:

a) Investments in the amount of $11,535,853 were incorrectly reported as Cash and Cash Equivalents.
b) Juvenile Service Center Board of Prisoners revenue in the amount of $1,815,238 was incorrectly reported as Other Public Safety revenue.
c) Fund Balance Reserved for Secondary Road in the amount of $3,492,525 was incorrectly included in the reported Unreserved Fund Balance of the County Road and Bridge Fund.
d) Prorate revenue in the amount of $335,203 was incorrectly reported as Motor Vehicle Licenses.

We were able to correct the material reporting errors and therefore have issued an unqualified auditor's opinion on the financial statements contained in this audit report. However, users of the annual financial report received information of diminished reliability.

RECOMMENDATIONS:

1. We recommend the county strengthen internal accounting controls over financial reporting by performing additional reviews prior to issuing the annual financial report.
2. We recommend the county receive additional training for the annual financial report preparation and presentation.

427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605)773-3595
FAX(605)773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

# INDEPENDENT AUDITOR'S REPORT

County Commission
Pennington County
Rapid City, South Dakota

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pennington County, South Dakota, (County) as of December 31, 2006, and for the year then ended, which collectively comprise the County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements or the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented component unit is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pennington County, South Dakota as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 31, 2007 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing* Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules on pages 9 through 15, and 46 through 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the schedule of revenues and expenditures, Regional Juvenile Service Center listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Martin L. Guindon, CPA
Auditor General

August 31, 2007

**PENNINGTON COUNTY**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**DECEMBER 31, 2006**

This section of Pennington County's financial report presents our discussion of Pennington County's financial performance during the fiscal year ended December 31, 2006. Please read it in conjunction with Pennington County's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- Program revenues made up 38% of Pennington County's total revenues with the other 62% derived from general revenues. Program Revenues saw a decrease in Public Safety grant funds from the previous year and an increase in charges for goods and services. There was an increase in General Government capital grants for the required election equipment to comply with HAVA (Help America Vote Act).
- Pennington County's General Fund increased from 2005 to 2006 by 3%. All function activities remained similar in percentage comparison to 2005, with a slight increase in Public Safety for the addition of the completed jail annex. Law Enforcement was 51% of the budget; General Government at 31%; Public Works at 1%; Health & Welfare at 14% with all other functions combined totaling 3%.
- The Road Fund reported an increase in fund balance of $1,148,171.38 including an increase in inventory of $122,052.48. Reserves in Road & Bridge and special reserve accounts will be used for major road renovations over the next 4 to 5 years.

*The fund balance in General Fund increased marginally by $270,428.67.*

## OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts--management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of Pennington County:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about Pennington County's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of Pennington County government, reporting Pennington County's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
  - Fiduciary fund statements provide information about the financial relationships in which Pennington County acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information (RSI) that further explains and supports the information in the financial statements.

Table A-1 summarizes the major features of Pennington County's financial statements, including the portion of Pennington County government covered and the types of information contained. The reminder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

**Table A-1**
**Major Features of Pennington County's Government-wide and Fund Financial Statements**

| | Government-wide Statements | Governmental Funds | Proprietary Funds | Fiduciary Funds |
|---|---|---|---|---|
| Scope | Entire County government (except fiduciary funds & component units) | The activities of Pennington County that are not proprietary or fiduciary, such as public safety and roads | Pennington County operates an internal service fund (one type of proprietary fund) for self-insurance health plan | Instances in which Pennington County is the trustee or agent for someone else's resources |
| Required Financial Statements | *Statement of Net Assets<br>*Statement of Activities | *Balance Sheet<br>*Statement of Revenues, Expenditures and Changes in Fund Balances | *Balance Sheet<br>*Statement of Revenues, Expenses and Changes in Fund Net Assets<br>*Statement of Cash Flows | *Statement of Fiduciary Net Assets<br>*Statement of Changes in Fiduciary Net Assets |
| Accounting Basis & Measurement Focus | Accrual accounting & economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting & economic resources focus |
| Type of Asset/Liability Information | All assets & Liabilities, both financial and capital, and short & long-term | Only assets expected to be consumed and liabilities that come due during the year or soon thereafter. No capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term included | All assets & liabilities, both short-term & long-term, the County's funds do not currently contain capital assets although they may |
| Type of Inflow/Outflow Information | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid. | All revenues and expenses during the year, regardless of when cash is received or paid. |

**Government-wide Statements**
The government-wide statements report information about Pennington County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of Pennington County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report Pennington County's net assets and how they have changed. Net assets – the difference between Pennington County's assets and liabilities – are one way to measure Pennington County's financial health or position.

- Over time, increases or decreases in Pennington County's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of Pennington County you need to consider additional nonfinancial factors such as changes in Pennington County's property tax base and the conditions of Pennington County's roads and infrastructure.

The government-wide financial statements of Pennington County are reported in two categories:

- Governmental Activities - This category includes the County's basic service, such as general government services (auditor's office, treasurer's office, etc.), public safety department, public works department, health and welfare services, culture and recreation services, conservation and natural resource services, urban and economic development programs, and payments to local educational agencies. Property taxes, state shared revenues, federal grants and interest earnings finance most of these activities.
- Component Units - The County includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this "component unit" is important because the County Commission retains the statutory authority to approve or deny or otherwise modify the Housing and Redevelopment Commission's plans to construct a low-income housing unit, or to issue debt, which gives the County Commission the ability to impose its will on the Housing and Redevelopment Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the Housing and Redevelopment Commission, 1805 West Fulton Street, Rapid City, SD 57702-4358.

**Fund Financial Statements**
The fund financial statements provide more detailed information about Pennington County's most significant funds – not Pennington County as a whole. Funds are accounting devices that Pennington County uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires the majority of the funds.
- Other funds are established, as needed, to control, manage, and reserve money for particular purposes.

Pennington County has three kinds of funds:

- Governmental Funds – Most of Pennington County's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Pennington County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds – Services for which Pennington County charges participants a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
  - Pennington County has an internal service fund (one type of proprietary fund) to report the activities related to providing self-insurance for health coverage to the employees.
- Fiduciary Funds – Pennington County is the trustee, or fiduciary, for various external and internal parties. Pennington County is responsible for ensuring that the assets reported in these funds are transmitted to the intended payee. All of Pennington County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from Pennington County's government-wide financial statements because Pennington County cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF PENNINGTON COUNTY AS A WHOLE

### Net Assets

Pennington County has $64,571,117.93 invested in Net Assets, which is a combination of restricted and unrestricted assets. This is a decrease of $566,565.27 over 2005. Liabilities increased by $2,642,563.06 with the largest increase in non current liabilities primarily due to the Honeywell Retrofit project which was leased over a 10 year period. Pennington County capitalizes assets at $5,000 or more.

Pennington County reports no Business-Type Activities but does report one component unit-Pennington County Housing, which the Board of Commissioners appoints their board members.

| | Government-Wide Governmental Activities | |
|---|---|---|
| | 2006 | 2005 |
| Current and Other Assets | $ 28,837,917.28 | $ 28,235,613.87 |
| Capital Assets | 60,842,823.91 | 59,369,129.53 |
| **Total Assets** | **89,680,741.19** | **87,604,743.40** |
| Other Liabilities | 2,494,748.54 | 2,535,778.74 |
| Long-Term Obligations Outstanding | 22,614,874.72 | 19,931,281.46 |
| **Total Liabilities** | **25,109,623.26** | **22,467,060.20** |
| Net Assets: | | |
| Investment in Capital Assets Net of Related Debt | 40,753,376.91 | 41,610,027.53 |
| Restricted | 12,326,169.51 | 12,215,484.67 |
| Unrestricted | 11,491,571.51 | 11,312,171.00 |
| **Total Net Assets** | **$ 64,571,117.93** | **$ 65,137,683.20** |
| **Beginning Net Assets** | **65,137,683.20** | **61,950,715.05** |
| **Increase (Decrease) in Net Assets** | **(441,565.27)** | **3,566,160.62** |
| **Prior Period Adjustment** | **(125,000.00)** | **(379,192.47)** |
| **Percentage of Increase (Decrease) in Net Assets** | **(1%)** | **5%** |

This is the report of all activities on the accrual basis of accounting with a comparison between 2005 and 2006. The Statement of Net Assets reports all financial and capital resources. This statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of Pennington County are for leave liability and bond debt. The difference between Pennington County's assets and liabilities is its net assets.

### Changes in Net Assets

Pennington County's revenues totaled $50,156,647.83 (See Table A-2.) Over half of Pennington County's revenue comes from property and other taxes equating to 55 cents of every dollar collected. (See Table A-2.) Another 22% of revenues come from charges for goods and services, showing that Pennington County tries to recover some of its expenses of specialized services, 17% of the remaining program revenues come from state and federal grants. Only 3% is general revenue interest and miscellaneous in nature. The percentages varied when compared to last year with a 12% increase in charges for goods and services, nearly 50% increase in interest earnings and decrease in program revenue grants due to the construction project grant received in 2005.

The total cost of all programs and services increased this past year with the most noticeable increases in General Government due largely to the $3.5 million dollar Honeywell retrofit project, in Public Works as major road renovations projects began, and in Culture and Recreation with a significant budget increase for the County Fair budget. Pennington County's expenses cover a wide range of services. In addition, Pennington County acts as a regional facility centers for incarceration prisoner transport of adults and juveniles, adult long and short term detoxification and a centralized Dispatch, thus inflating our percentages and dollars spent in the law enforcement area. (See Table A-2)

**GOVERNMENTAL ACTIVITIES**

Table A-2 and the narrative that follows review the operations of the governmental activities.

Revenues for Pennington County's government activities increase by approximately 6% overall and total expenses increased by 16%.

**Table A-2**
**Pennington County Change in Net Assets**

| | Total Governmental Activities | | Total Percentage Change |
|---|---|---|---|
| | 2006 | 2005 | 2005 to 2006 |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Good and Services | $ 11,116,180.46 | $ 9,597,157.03 | 16% |
| Operating Grants and Contributions | 7,916,578.40 | 8,210,083.16 | (4%) |
| Capital Grants and Contributions | 316,825.00 | 426,387.06 | (26%) |
| General Revenues: | | | |
| Taxes | 27,734,016.78 | 26,195,518.43 | 6% |
| State Shared Revenues | 620,790.55 | 767,148.59 | (19%) |
| Grants and Contributions Unrestricted | 1,101,643.48 | 1,060,522.03 | 4% |
| Unrestricted Investment Earnings | 1,203,463.63 | 672,697.21 | 79% |
| Miscellaneous | 147,149.53 | 203,584.91 | (28%) |
| **Total Revenues** | **50,156,647.83** | **47,133,098.42** | **6%** |
| Expenses: | | | |
| General Government | 14,802,623.37 | 10,617,301.71 | 39% |
| Public Safety | 20,618,659.55 | 20,486,864.67 | 1% |
| Public Works | 8,389,405.11 | 5,859,607.41 | 43% |
| Health and Welfare | 4,541,234.60 | 4,344,146.25 | 5% |
| Culture and Recreation | 692,788.00 | 479,098.00 | 45% |
| Conservation of Natural Resources | 406,376.89 | 443,632.92 | (8%) |
| Urban and Economic Development | 341,978.32 | 323,470.38 | 6% |
| Interest on Long-Term Debt | 805,147.26 | 763,901.41 | 5% |
| Loss on Disposal of Capital Assets | | 248,915.05 | (100%) |
| **Total Expenses** | **50,598,213.10** | **43,566,937.80** | **16%** |
| **Increase (Decrease) in Net Assets** | **(441,565.27)** | **3,566,160.62** | **112%** |
| **Prior Period Adjustment for Capital Assets** | **(125,000.00)** | **(379,192.47)** | **(67%)** |
| **Ending Net Assets** | **$ 64,571,117.93** | **$ 65,137,683.20** | **(1%)** |

## FINANCIAL ANALYSIS OF PENNINGTON COUNTY'S FUNDS

The financial analysis of Pennington County's funds mirror those highlighted in the analysis of governmental activities presented in Table A-2. The General Fund had an increase in fund balance of $270,428.67 or 2%.

The Road & Bridge Fund increased its fund balance in 2006 by $1,148,171.38. As with the past several years, the Road & Bridge fund continues to accumulate monies for future road projects.

The Capital Projects Fund decreased its fund balance by $283,802.68 with the completion of the major multi-project which included the parking structure, Public Safety Building addition, and jail annex. Completion of the jail medical area located in the jail annex will be completed in 2007 with continuing completion of two floors in the jail annex still needed. In addition a County Administration building is in the planning stages of construction.

Pennington County did make the following operating transfers between the governmental funds:

**Table A-3**

| Fund | Transfer In | Transfer Out |
|---|---|---|
| General Fund | $ 414,393.41 | $ 2,727,580.00 |
| Road Fund | 2,668,617.00 | 338,565.57 |
| Capital Projects Funds | 1,340,409.00 | |
| Other Governmental Funds | 58,963.00 | 1,416,236.84 |
| **Total Operating Transfers** | **$ 4,482,382.41** | **$ 4,482,382.41** |

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Pennington County Commission revised our budget several times. These amendments fall into the following categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for its citizens.
- Increases in appropriations, supported by contingency transfers and supplements, to prevent budget overruns.

When preparing its budget, Pennington County is conservative in estimating revenues causing a large number of supplements from unknown revenues or unverified grants.

## CAPITAL ASSET ADMINISTRATION

By the end of 2006 Pennington County had an invested net of depreciation totaling $60,842,823.91 in a broad range of capital assets, including land and improvements, buildings, law enforcement equipment, highway maintenance equipment and other business equipment. (See Table A-4.) The amount of increase reported is for completion of the Jail annex and continued construction in progress on a jail medical facility.

**Table A-4**
**Pennington County – Capital Assets**
**(Net of Depreciation)**

| | Total Governmental Activities 2006 | Total Governmental Activities 2005 | Total Dollar Change 2005 to 2006 | Total Percentage Change 2005 to 2006 |
|---|---|---|---|---|
| Land | $ 955,177.00 | $ 905,438.23 | $ 49,738.77 | 5% |
| Construction in Progress | 180,163.00 | 10,704,476.77 | (10,524,313.77) | (98%) |
| Infrastructure (not fully reported yet) | 920,737.95 | 947,295.95 | (26,558.00) | (3%) |
| Buildings | 48,164,680.00 | 36,717,287.67 | 11,447,392.33 | 31% |
| Machinery and Equipment | 10,622,065.96 | 10,094,630.91 | 527,435.05 | 5% |
| **Total Capital Assets** | **$ 60,842,823.91** | **$ 59,369,129.53** | **$ 1,473,694.38** | **2%** |

**LONG-TERM DEBT**

Pennington County currently has $22,614,874.72 in outstanding bonds and other long-term liabilities with $2,089,471.91 of that due within 1 year's time. This amount includes the addition of the Honeywell Lease for the retrofit project entered into in 2006.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Pennington County increased its total real property valuation by $365,834,190 or 7% over the last year. Under the current taxing statutes, Pennington County can only increase its dollar amount of taxes by a combined percent of new construction values and a specific CPI that is capped at 3%. For 2005 taxes payable in 2006, Pennington County increased its taxes levied by $1,517,255.46, a 6% increase. This real property increase is typical of new construction property value increases in Pennington County and is close to the previous tax year. The way the tax statutes are designed, mill levies or dollars per thousand of value should minutely decrease each year as long as revaluation of property values exceeds the state approved CPI for the year. The majority of budget increases were allocated to operating expenses.

**CONTACTING PENNINGTON COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of Pennington County's finances and to demonstrate Pennington County's accountability for the money it receives. If you have questions about this report or need additional information, contact Julie A. Pearson, Pennington County Auditor, 315 St. Joseph St, Suite 107, Rapid City, SD 57701.

**PENNINGTON COUNTY**
**STATEMENT OF NET ASSETS**
**December 31, 2006**

| | Primary Government Governmental Activities | Component Units |
|---|---|---|
| **ASSETS:** | | |
| Cash and Cash Equivalents | $ 12,075,412.19 | $ 1,160,900.00 |
| Investments | 11,535,852.95 | |
| Accounts Receivable, Net | 4,219,020.09 | 237,319.00 |
| Inventories | 1,001,075.60 | 25,117.00 |
| Other Assets | | 51,052.00 |
| Restricted Assets: | | |
| Cash and Cash Equivalents | 6,556.45 | |
| Investments | | 5,267,595.00 |
| Capital Assets: | | |
| Land, Improvements and Construction in Progress | 1,135,340.00 | 1,261,852.00 |
| Other Capital Assets, Net of Depreciation | 59,707,483.91 | 13,307,835.00 |
| TOTAL ASSETS | $ 89,680,741.19 | $ 21,311,670.00 |
| **LIABILITIES:** | | |
| Accounts Payable | $ 1,750,021.52 | $ 315,379.00 |
| Deferred Revenue | 744,727.02 | 21,636.00 |
| Other Current Liabilities | | 91,395.00 |
| Noncurrent Liabilities: | | |
| Due Within One Year | 2,089,471.91 | 162,539.00 |
| Due in More than One Year | 20,525,402.81 | 2,388,399.00 |
| TOTAL LIABILITIES | 25,109,623.26 | 2,979,348.00 |
| **NET ASSETS:** | | |
| Invested in Capital Assets, Net of Related Debt | 40,753,376.91 | 12,190,106.00 |
| Restricted for: | | |
| Capital Projects | 771,775.23 | |
| Other Purposes (See Note 10) | 11,554,394.28 | |
| Unrestricted | 11,491,571.51 | 6,142,216.00 |
| TOTAL NET ASSETS | 64,571,117.93 | 18,332,322.00 |
| TOTAL LIABILITIES AND NET ASSETS | $ 89,680,741.19 | $ 21,311,670.00 |

The notes to the financial statements are an integral part of this statement.

**PENNINGTON COUNTY**
**STATEMENT OF ACTIVITIES**
**For the Year Ended December 31, 2006**

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Component Units |
|---|---|---|---|---|---|---|
| **Primary Government:** | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | $ 14,802,623.37 | $ 1,477,316.47 | $ 711,780.22 | $ 316,825.00 | $ (12,296,701.68) | $ |
| Public Safety | 20,618,659.55 | 6,597,851.79 | 2,370,839.05 | | (11,649,968.71) | |
| Public Works | 8,389,405.11 | 355,807.31 | 4,363,584.53 | | (3,670,013.27) | |
| Health and Welfare | 4,541,234.60 | 2,436,426.72 | 462,519.59 | | (1,642,288.29) | |
| Culture and Recreation | 692,788.00 | | 4,055.01 | | (688,732.99) | |
| Conservation of Natural Resources | 406,376.89 | 112,084.74 | 3,800.00 | | (290,492.15) | |
| Urban and Economic Development | 341,978.32 | 136,693.43 | | | (205,284.89) | |
| *Interest on Long-term Debt | 805,147.26 | | | | (805,147.26) | |
| Total Primary Government | $ 50,598,213.10 | $ 11,116,180.46 | $ 7,916,578.40 | $ 316,825.00 | (31,248,629.24) | |
| Component Units: | | | | | | |
| Pennington County Housing | $ 10,154,312.00 | $ 1,576,099.00 | | | | (8,578,213.00) |
| **General Revenues:** | | | | | | |
| Taxes: | | | | | | |
| Property Taxes | | | | | 26,823,666.73 | |
| 911 Telephone Surcharge | | | | | 910,350.05 | |
| State Shared Revenues | | | | | 620,790.55 | |
| Grants and Contributions not Restricted to Specific Programs | | | | | 1,101,643.48 | 8,424,677.00 |
| Unrestricted Investment Earnings | | | | | 1,203,463.63 | 227,025.00 |
| Miscellaneous Revenue | | | | | 147,149.53 | (64,267.00) |
| Total General Revenues | | | | | 30,807,063.97 | 8,587,435.00 |
| Change in Net Assets | | | | | (441,565.27) | 9,222.00 |
| Net Assets - Beginning | | | | | 65,137,683.20 | 18,323,100.00 |
| Adjustments: | | | | | | |
| Tax Increment Financial not Reported | | | | | (125,000.00) | |
| Adjusted Net Assets - Beginning | | | | | 65,012,683.20 | 18,323,100.00 |
| NET ASSETS - ENDING | | | | | $ 64,571,117.93 | $ 18,332,322.00 |

* The County does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement.

PENNINGTON COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006

| | General Fund | Road & Bridge Fund | Law Enforcement Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $ | $ 6,502,516.78 | $ 776,659.84 | $ 3,257,086.22 | $ 10,536,262.84 |
| Investments | 11,324,386.17 | 211,466.78 | | | 11,535,852.95 |
| Taxes Receivable--Delinquent | 520,544.05 | 38,562.87 | | 63,879.21 | 622,986.13 |
| Accounts Receivable, Net | 50,816.95 | 2,691.00 | | 212,331.07 | 265,839.02 |
| Notes Receivable | 3,359.00 | | | | 3,359.00 |
| Due from Other Government | 1,786,876.17 | 1,098,497.10 | 32,056.50 | 390,917.39 | 3,308,347.16 |
| Inventory of Supplies | | 1,001,075.60 | | | 1,001,075.60 |
| Restricted Cash and Cash Equivalents | 6,556.45 | | | | 6,556.45 |
| TOTAL ASSETS | $ 13,692,538.79 | $ 8,854,810.13 | $ 808,716.34 | $ 3,924,213.89 | $ 27,280,279.15 |
| **LIABILITIES AND FUND BALANCES:** | | | | | |
| Liabilities: | | | | | |
| Accounts Payable | $ 801,708.83 | $ 434,818.88 | $ 36,941.11 | $ 266,484.20 | $ 1,539,953.02 |
| Deferred Revenue | 1,178,506.05 | 38,562.87 | | 150,644.23 | 1,367,713.15 |
| Total Liabilities | 1,980,214.88 | 473,381.75 | 36,941.11 | 417,128.43 | 2,907,666.17 |
| Fund Balances: | | | | | |
| Reserved For: | | | | | |
| Inventory | | 1,001,075.60 | | | 1,001,075.60 |
| Secondary Road | | 3,492,524.60 | | | 3,492,524.60 |
| Other Purposes | | | | 19,362.05 | 19,362.05 |
| Unreserved Fund Balances: | | | | | |
| Designated for Next Year's Appropriation | 6,090,904.00 | 2,500,000.00 | | | 8,590,904.00 |
| Reported in Non-Major: | | | | | |
| Special Revenue Funds | | | | 16,276.00 | 16,276.00 |
| Designated for Other Purposes | 425,260.54 | | | | 425,260.54 |
| Undesignated | 5,196,159.37 | 1,387,828.18 | 771,775.23 | | 7,355,762.78 |
| Reported in Non-Major: | | | | | |
| Special Revenue Funds | | | | 3,471,447.41 | 3,471,447.41 |
| Total Fund Balances | 11,712,323.91 | 8,381,428.38 | 771,775.23 | 3,507,085.46 | 24,372,612.98 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 13,692,538.79 | $ 8,854,810.13 | $ 808,716.34 | $ 3,924,213.89 | $ 27,280,279.15 |

The notes to the financial statements are an integral part of this statement.

## PENNINGTON COUNTY
## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
## For the Year Ended December 31, 2006

| | |
|---|---|
| Total Fund Balances - Governmental Funds | $ 24,372,612.98 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 60,842,823.91 |
| Long-term liabilities, including bonds payable and accrued leave payable are not due and payables in the current period and therefore are not reported in the funds. | (22,614,874.72) |
| Assets such as taxes receivable (delinquent) and special assessment receivables (current, delinquent and deferred) are not available to pay for current period expenditures and therefore are deferred in the funds. | 622,986.13 |
| Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. | 1,347,569.63 |
| Net Assets - Governmental Funds | $ 64,571,117.93 |

The notes to the financial statements are an integral part of this statement.

PENNINGTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

| | General Fund | Road & Bridge Fund | Law Enforcement Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Taxes: | | | | | |
| General Property Taxes--Current | $ 21,568,218.87 | $ 1,312,788.58 | $ | $ 3,077,616.98 | $ 25,958,624.43 |
| General Property Taxes--Delinquent | 205,622.05 | 19,296.91 | | 27,134.21 | 252,053.17 |
| Penalties and Interest | 58,389.90 | 3,877.18 | | 7,048.14 | 69,315.22 |
| Telephone Tax (Outside) | 101,521.30 | | | | 101,521.30 |
| Mobile Home Tax | 165,698.94 | 8,316.60 | | 9,452.87 | 183,468.41 |
| 911 Telephone Surcharge | | | | 910,350.05 | 910,350.05 |
| Tax Deed Revenue | 5,924.59 | 1,481.15 | | 1,045.22 | 8,450.96 |
| Licenses and Permits | 302,288.00 | 2,210.45 | | 29,760.00 | 334,258.45 |
| Intergovernmental Revenue: | | | | | |
| Federal Grants | 1,075,344.07 | | | 948,355.96 | 2,023,700.03 |
| Federal Shared Revenue | | 621,221.44 | | 202,040.51 | 823,261.95 |
| Federal Payments in Lieu of Taxes | 452,266.00 | | | | 452,266.00 |
| State Grants | 14,747.00 | | | | 14,747.00 |
| State Shared Revenue: | | | | | |
| Bank Franchise | 133,547.15 | 7,135.58 | | 13,434.56 | 154,117.29 |
| Motor Vehicle Licenses | | 3,132,328.60 | | | 3,132,328.60 |
| Inheritance Tax | 23,107.15 | | | | 23,107.15 |
| Liquor Tax Reversion | 718.94 | | | | 718.94 |
| Court Appointed Attorney/Public Defender | 161,899.44 | | | | 161,899.44 |
| Prorate/Port of Entry Fees | | 335,203.08 | | | 335,203.08 |
| Abused/Neglected Child | 30,712.08 | | | | 30,712.08 |
| 85% Mobile Home | | 94,530.38 | | | 94,530.38 |
| Secondary Road Motor Vehicle Remittances | | 801,522.47 | | | 801,522.47 |
| Telecommunications Gross Receipts | 442,847.17 | | | | 442,847.17 |
| Other State Shared Revenue | | | | 17,751.90 | 17,751.90 |
| Other Payments in Lieu of Taxes | 13,055.26 | | | 1,227.52 | 14,282.78 |
| Other Intergovernmental Revenue | 1,222,787.98 | 94,005.56 | 149,920.93 | 77,895.48 | 1,544,609.95 |
| Charges for Goods and Services: | | | | | |
| General Government: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Treasurer's Fees | 182,127.40 | | | | 182,127.40 |
| Register of Deeds' Fees | 1,101,043.26 | | | | 1,101,043.26 |
| Driver's License Exam | 1,275.00 | | | | 1,275.00 |
| Legal Services | 14,446.83 | | | | 14,446.83 |
| Clerk of Courts Fees | 144,833.65 | | | 11,375.01 | 156,208.66 |
| Other Fees | 66,319.49 | | | | 66,319.49 |
| Public Safety: | | | | | |
| Law Enforcement | 841,563.07 | | | | 841,563.07 |
| Prisoner Care | 4,086,717.60 | | | | 4,086,717.60 |
| Other | 2,881,859.98 | | | | 2,881,859.98 |
| Public Works: | | | | | |
| Highways | | 116,168.30 | | | 116,168.30 |
| Health and Welfare: | | | | | |
| Economic Assistance: | | | | | |
| Poor Lien Recoveries | 429,866.87 | | | | 429,866.87 |
| Veterans Service Officer | 3,750.00 | | | | 3,750.00 |
| Mental Health Services | 15,672.18 | | | | 15,672.18 |
| Conservation of Natural Resources | 111,210.34 | | | | 111,210.34 |
| Other Charges | 78,260.41 | | | | 78,260.41 |
| Fines and Forfeits: | | | | | |
| Fines | 7,220.00 | | | | 7,220.00 |
| Costs | 109,638.59 | | | | 109,638.59 |
| Forfeits | 1,000.00 | | | | 1,000.00 |
| Miscellaneous Revenue: | | | | | |
| Investment Earnings | 649,910.51 | 338,565.57 | 15,117.77 | 199,869.78 | 1,203,463.63 |
| Rent | 3,265.00 | 480.00 | | | 3,745.00 |
| Contributions and Donations | 20,810.65 | | | | 20,810.65 |
| Refund of Prior Year's Expenses | 7,190.12 | | | 40,739.36 | 47,929.48 |
| Other | 171,777.03 | 20,826.12 | | 17,907.32 | 210,510.47 |
| Total Revenue | 36,908,453.87 | 6,909,957.97 | 165,038.70 | 5,593,004.87 | 49,576,455.41 |
| | | | | | |
| **Expenditures:** | | | | | |
| General Government: | | | | | |
| Legislative: | | | | | |
| Board of County Commissioners | 729,389.30 | | | | 729,389.30 |
| Elections | 379,283.92 | | | | 379,283.92 |
| Judicial System | 328,726.03 | | | | 328,726.03 |
| Financial Administration: | | | | | |
| Auditor | 262,861.66 | | | | 262,861.66 |
| Treasurer | 697,914.68 | | | | 697,914.68 |
| ITS | 648,728.63 | | | | 648,728.63 |
| Legal Services: | | | | | |
| State's Attorney | 1,583,948.71 | | | | 1,583,948.71 |
| Public Defender | 1,252,321.92 | | | | 1,252,321.92 |

PENNINGTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006
(Continued)

| | General Fund | Road & Bridge Fund | Law Enforcement Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Court Appointed Attorney | 317,540.68 | | | | 317,540.68 |
| Abused and Neglected Child | 211,774.55 | | | | 211,774.55 |
| Other | 561,930.06 | | | | 561,930.06 |
| Other Administration: | | | | | |
| General Government Building | 5,760,231.42 | | | 442,276.93 | 6,202,508.35 |
| Director of Equalization | 898,653.70 | | | | 898,653.70 |
| Register of Deeds | 333,789.47 | | | | 333,789.47 |
| Predatory Animai (GFP) | 3,830.00 | | | | 3,830.00 |
| Other | 100,000.00 | | | | 100,000.00 |
| Public Safety: | | | | | |
| Law Enforcement: | | | | | |
| Sheriff | 4,670,929.17 | | | 49,071.48 | 4,720,000.65 |
| County Jail | 6,058,261.66 | | 79,708.43 | | 6,137,970.09 |
| Coroner | 105,751.42 | | | | 105,751.42 |
| County-Wide Law Enforcement | 845,099.19 | | | | 845,099.19 |
| Juvenile Detention | 4,418,077.78 | | | | 4,418,077.78 |
| Protective and Emergency Services: | | | | | |
| Fire Protection | | | | 213,078.17 | 213,078.17 |
| Emergency and Disaster Services | 89,243.19 | | | 954,286.35 | 1,043,529.54 |
| Communication Center | 1,184,060.22 | | | 995,302.97 | 2,179,363.19 |
| Public Works: | | | | | |
| Highways and Bridges: | | | | | |
| Highways, Roads and Bridges | | 7,700,942.65 | | | 7,700,942.65 |
| Other Public Works | 49,770.26 | | | | 49,770.26 |
| Health and Welfare: | | | | | |
| Economic Assistance: | | | | | |
| Support of Poor | 958,343.10 | | | | 958,343.10 |
| Health Assistance: | | | | | |
| County Nurse | 43,260.00 | | | | 43,260.00 |
| Health Services | 108,840.00 | | | | 108,840.00 |
| Ambulance | 5,369.28 | | | | 5,369.28 |
| Social Services: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Care of Aged | 20,446.00 | | | | 20,446.00 |
| Domestic Abuse | | | | 41,135.01 | 41,135.01 |
| Mental Health Services: | | | | | |
| Mentally Ill | 608,401.10 | | | | 608,401.10 |
| Drug Abuse | 2,716,873.49 | | | | 2,716,873.49 |
| Culture and Recreation: | | | | | |
| Culture: | | | | | |
| Public Library | | | | 329,561.00 | 329,561.00 |
| Recreation: | | | | | |
| County Fair | 307,755.00 | | | | 307,755.00 |
| Conservation of Natural Resources: | | | | | |
| Soil Conservation: | | | | | |
| County Extension | 96,064.41 | | | | 96,064.41 |
| Soil Conservation Districts | 58,335.00 | | | | 58,335.00 |
| Weed and Pest Control | 215,549.96 | | | | 215,549.96 |
| Water Conservation: | | | | | |
| Drainage Commissions | 19,553.18 | | | | 19,553.18 |
| Urban and Economic Development: | | | | | |
| Urban Development: | | | | | |
| Planning and Zoning | 278,763.39 | | | | 278,763.39 |
| Economic Development: | | | | | |
| Tourism, Industrial or Recreational | 60,000.00 | | | | 60,000.00 |
| Debt Service | 309,105.00 | | | 1,860,144.26 | 2,169,249.26 |
| Capital Outlay | 720,509.08 | 512,947.85 | 1,709,541.95 | 118,273.26 | 3,061,272.14 |
| Total Expenditures | 38,019,285.61 | 8,213,890.50 | 1,789,250.38 | 5,003,129.43 | 53,025,555.92 |
| **Other Financing Sources (Uses):** | | | | | |
| Transfers In | 414,393.41 | 2,668,617.00 | 1,340,409.00 | 58,963.00 | 4,482,382.41 |
| Transfers Out | (2,727,580.00) | (338,565.57) | | (1,416,236.84) | (4,482,382.41) |
| Proceeds of General Long-Term Debt | 3,694,447.00 | | | | 3,694,447.00 |
| Total Other Financing Sources (Uses) | 1,381,260.41 | 2,330,051.43 | 1,340,409.00 | (1,357,273.84) | 3,694,447.00 |
| Net Change in Fund Balances | 270,428.67 | 1,026,118.90 | (283,802.68) | (767,398.40) | 245,346.49 |
| Change in Fund Balance Reserves: | | | | | |
| Change in Inventory | | 122,052.48 | | | 122,052.48 |
| Fund Balance - Beginning | 11,441,895.24 | 7,233,257.00 | 1,055,577.91 | 4,274,483.86 | 24,005,214.01 |
| FUND BALANCE - ENDING | $ 11,712,323.91 | $ 8,381,428.38 | $ 771,775.23 | $ 3,507,085.46 | $ 24,372,612.98 |

The notes to the financial statements are an integral part of this statement.

**PENNINGTON COUNTY**
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities**
**For the Year Ended December 31, 2006**

| | |
|---|---|
| Net Change in Fund Balances - Total Governmental Funds | $ 245,346.49 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($3,061,272.14) were more than depreciation ($1,711,955) in the current period plus donated capital assets ($329,959.18). | 1,679,276.32 |
| In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the disposal of fixed assets is not reflected. | (205,581.94) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 1,364,102.00 |
| The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available". | 250,233.24 |
| Governmental funds reflect Inventory changes as Changes in Reserves to Fund Balance, but the statement of activities reflects the change through expenditures. | 122,052.48 |
| Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures. | (228,248.26) |
| Proceeds of bond principal is a revenue in the Governmental Funds, but increases the long-term liabilities in the statement of net assets. | (3,694,447.00) |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. | 25,701.40 |
| Change in Net Assets of Governmental Activities | $ (441,565.27) |

The notes to the financial statements are an integral part of this statement.

**PENNINGTON COUNTY**
**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
**DECEMBER 31, 2006**

| | | Internal Service Funds Health Care Trust |
|---|---|---|
| **ASSETS:** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 1,539,149.35 |
| Accounts Receivable, Net | | 18,488.78 |
| TOTAL ASSETS | $ | 1,557,638.13 |
| **LIABILITIES:** | | |
| Current Liabilities: | | |
| Accounts Payable | $ | 210,068.50 |
| **NET ASSETS:** | | |
| Unrestricted Net Assets | | 1,347,569.63 |
| TOTAL LIABILITIES AND NET ASSETS | $ | 1,557,638.13 |

The notes to the financial statements are an integral part of this statement.

**PENNINGTON COUNTY**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
**For the Year Ended December 31, 2006**

| | Internal Service Funds<br>Health Care Trust |
|---|---|
| **Operating Revenue:** | |
| Charges for Goods and Services | $ 2,614,559.70 |
| Contributions and Donations | 170,518.63 |
| Total Operating Revenue | 2,785,078.33 |
| **Operating Expenses:** | |
| Personal Services | 441,676.23 |
| Other Current Expense | 2,257.65 |
| Claims Paid | 2,404,243.55 |
| Total Operating Expenses | 2,848,177.43 |
| Operating Income (Loss) | (63,099.10) |
| **Nonoperating Revenue (Expense):** | |
| Investment Earnings | 88,800.50 |
| Change in Net Assets | 25,701.40 |
| Net Assets - Beginning | 1,321,868.23 |
| NET ASSETS - ENDING | $ 1,347,569.63 |

The notes to the financial statements are an integral part of this statement.

**PENNINGTON COUNTY**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**For the Year Ended December 31, 2006**

| | Internal Service Funds Health Care Trust |
|---|---|
| **Cash Flows from Operating Activities:** | |
| Cash Receipts from Customers/Employees | $ 2,614,559.70 |
| Cash Payments to Administrator | (443,933.88) |
| Claims Paid | (2,359,211.55) |
| Other Operating Receipts | 173,682.88 |
| Net Cash Provided (Used) by Operating Activities | (14,902.85) |
| **Cash Flows from Investing Activities:** | |
| Interest Earnings | 88,800.50 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 73,897.65 |
| Cash and Cash Equivalents at Beginning of Year | 1,465,251.70 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 1,539,149.35 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:** | |
| Operating Income (Loss) | $ (63,099.10) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Change in Assets and Liabilities: | |
| Receivables | 3,164.25 |
| Accounts and Other Payables | 45,032.00 |
| Net Cash Provided (Used) by Operating Activities | $ (14,902.85) |

The notes to the financial statements are an integral part of this statement.

**PENNINGTON COUNTY**
**STATEMENT OF FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
**December 31, 2006**

| | | Agency Funds |
|---|---|---|
| **ASSETS:** | | |
| Cash and Cash Equivalents | $ | 2,369,443.36 |
| TOTAL ASSETS | $ | 2,369,443.36 |
| **LIABILITIES:** | | |
| Amounts Held for Others | $ | 558,932.60 |
| Due to Other Governments | | 1,810,510.76 |
| TOTAL LIABILITIES | $ | 2,369,443.36 |

The notes to the financial statements are an integral part of this statement.

PENNINGTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of Pennington County, (County) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The County is financially accountable if its County Commission appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the County (primary government). The County may also be financially accountable for another organization if that organization is fiscally dependent on the County.

The Housing and Redevelopment Commission of Pennington County, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the County Commission's Chairperson with the approval of the Board of County Commissioners for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The County Commission, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the County Commission the ability to impose its will on the Commission. The Housing and Redevelopment Commission's fiscal year end is March 31, 2005. The County has included the March 31, 2005 audit report financial information (which was the most recent audit information available) in the amounts it reports as a discretely presented component unit. No significant transactions between the County and the Housing and Redevelopment Commission have occurred. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: 1804 West Fulton Street, Rapid City, SD 57702-4358.

b. Basis of Presentation:

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements*:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the County or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the County financial reporting entity are described below:

**Governmental Funds:**

*General Fund – the General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.*

*Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.*

County Road and Bridge Fund - to account for funds credited to the county road and bridge fund pursuant to SDCL 32-11-4.2 to be used by the board of county commissioners for grading, constructing, planning, dragging, and maintaining county highways and also for dragging, maintaining and grading secondary roads. Proper equipment for dragging grading, and maintaining highways, such as graders, tractors, drags, maintainers, and planners may be purchased from the road and bridge fund. (SDCL 32-11-2 and 32-11-4.2). This is a major fund.

The remaining Special Revenue funds are not considered major funds: Fire Protection, Secondary Road, Emergency and Disaster, Domestic Abuse, Public Library, Courthouse and Jail Building, Emergency 911, Title III, Hazardous Chemicals and Drug Seizure.

These funds are reported on the fund financial statements as "Other Governmental Funds".

*Capital Project Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).*

The County maintains the Law Enforcement Capital Project Fund. This fund is used to account for financial resources used for the construction of the County Jail, Parking Ramp and Public Safety Building Addition. This is a major fund.

**Proprietary Funds:**

*Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost-reimbursement basis. The particular types of goods or services provided to other funds is health insurance services. Internal service funds are never considered to be major funds. The Health Care Trust Fund is the only internal service fund maintained by the County.*

**Fiduciary Funds:**

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

*Agency funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass through funds.*

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

*Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

*Government-wide Financial Statements*:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

*Fund Financial Statements*:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the County is 30 days. The revenues which are accrued at December 31, 2006 are highway billings, board of prisoners and other receivables from various federal and state agencies.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements*:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

> In order to minimize the doubling-up effect of internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Health Care Trust Fund, so that expenses are reported only by the function to which they relate.

*Fund Financial Statements*:

Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. <u>Capital Assets</u>:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Statements*

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2006 balance of governmental activities capital assets all represent original costs.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 1980, were not required to be capitalized by the County. Infrastructure assets acquired since January 1, 1980 are recorded at cost, and classified as "Improvements Other than Buildings." The County is allowed a transition period to report all infrastructure assets. The County has not reported all infrastructure assets as of December 31, 2006. The value of the infrastructure assets will be included in the future.

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities. Accumulated depreciation is reported on the government-wide Statement of Net Assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|---|---|---|---|
| Land and Land Rights | All Capitalized | -----N/A------ | ----N/A------ |
| Improvements Other Than Buildings | $ 50,000.00 | Straight-line | various yrs. |
| Buildings | $ 50,000.00 | Straight-line | various yrs. |
| Machinery and Equipment | $ 5,000.00 | Straight-line | various yrs. |
| Infrastructure | $ 50,000.00 | Straight-line | various yrs. |

Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition.

f. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of general obligation bonds, financing (capital acquisition) leases and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the County's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The County pools the cash resources of its funds for cash management purposes. The proprietary fund essentially has access to the entire amount of its cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

*Government-wide Statements*:

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition , construction, or improvement of those assets.

2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Financial Statements*:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency Funds have no fund equity. The net assets are reported as net assets held in agency capacity.

k. Application of Net Assets:

It is the County's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The County follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The County's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1 and 7-20-1.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits County funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be

deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Credit Risk** – State law limits eligible investments for the County, as discussed above. The County has no investment policy that would further limit its investment choices.

As of December 31, 2006, the County had the following investments. All investments are in an internal deposit and investment pool.

| **Investment Type** | **Credit Rating** | **Fair Value** |
|---|---|---|
| Government National Mortgage Association | AAA | $ 90,892.62 |
| Federal National Mortgage Association | AAA | 1,109,557.46 |
| Federal Home Loan Mortgage Corporation | AAA | 28,972.72 |
| Subtotal | | 1,229,422.80 |
| **Mutual Funds:** | | |
| Tamarack US Government Money Market | AAA | 9,464.97 |
| WCMA Treasury Fund | AAA | 118,482.00 |
| *Subtotal* | | 127,946.97 |
| Total | | $ 1,357,369.77 |

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2006, the County had the following investments and maturities.

| | | **Investment Maturities (in Years)** | | | |
|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1 year** | **1 to 5** | **6 to 10** | **Greater than 10** |
| GNMA | $ | $ | $ | $ | $ 28,520.80 |
| GNMA | | | | | 62,371.82 |
| FNMA | | | | | 101,224.98 |
| FHLMC | | | | | 28,972.72 |
| FNMA | | | | | 12,702.48 |
| FHLB | | 995,630.00 | | | |
| Subtotal | | 995,630.00 | 0.00 | 0.00 | 233,792.80 |
| Other Investments | | | | | |
| Equity Mutual Funds | 127,946.97 | | | | |
| Total | $ 1,357,369.77 | | | | |

**Assignment of Investment Income** - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The County's policy is to credit all income from deposits and investments to the General Fund, except for the E911, Capital Projects and Health Care Trust funds which retains their investment income. USGAAP, on the

other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The County expects all receivables to be collected within one year.

4. INVENTORY

Inventory in the Road and Bridge Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost using the average cost method of valuation.

*Government-wide Financial Statements*:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

*Fund Financial Statements*:

In the fund financial statements, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The County is permitted by several state statutes to levy varying amounts of taxes per $1,000 of taxable valuation on taxable real property in the County.

6. CHANGES IN GENERAL CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2006 is as follows:

| | Balance 1/1/2006 | Increases | Decreases | Balance 12/31/2006 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land | $ 905,438.23 | $ 49,738.77 | $ | $ 955,177.00 |
| Construction in Progress | 10,704,476.77 | 1,698,138.00 | (12,222,451.77) | 180,163.00 |
| Total Capital Assets not being Depreciated | 11,609,915.00 | 1,747,876.77 | (12,222,451.77) | 1,135,340.00 |
| Capital Assets being Depreciated: | | | | |
| Infrastructure (Imp other than Bldgs) | 1,014,439.95 | | | 1,014,439.95 |
| Buildings | 48,236,037.67 | 12,253,039.33 | | 60,489,077.00 |
| Machinery and Equipment | 14,831,649.00 | 1,681,023.05 | (599,990.00) | 15,912,682.05 |
| Total Capital Assets being Depreciated | 64,082,126.62 | 13,934,062.38 | (599,990.00) | 77,416,199.00 |
| TOTAL CAPITAL ASSETS | $ 75,692,041.62 | $ 15,681,939.15 | $ (12,822,441.77) | $ 78,551,539.00 |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | $ (67,144.00) | $ (26,558.00) | $ | $ (93,702.00) |
| Buildings | (11,518,750.00) | (805,647.00) | | (12,324,397.00) |
| Machinery and Equipment | (4,737,018.09) | (879,020.00) | 325,422.00 | (5,290,616.09) |
| Total Accumulated Depreciation | (16,322,912.09) | (1,711,225.00) | 325,422.00 | (17,708,715.09) |
| Total Capital Assets being Depreciated, Net | 47,759,214.53 | 12,222,837.38 | (274,568.00) | 59,707,483.91 |
| Governmental Activity Capital Assets, Net | $ 59,369,129.53 | $ 13,970,714.15 | $ (12,497,019.77) | $ 60,842,823.91 |

Depreciation expense was charged to functions as follows:

| | |
|---|---|
| General Government | $ 181,928.00 |
| Public Safety | 693,618.00 |
| Public Works | 735,913.00 |
| Health and Welfare | 23,398.00 |
| Culture and Recreation | 55,472.00 |
| Conservation of Natural Resources | 14,815.00 |
| Urban and Economic Development | 6,811.00 |
| Total Depreciation Expense-Governmental Activities | $ 1,711,955.00 |

Construction Work in Progress at December 31, 2006 is composed of the following:

| Project Name | Project Authorization | Expended thru 12/31/2006 | Committed | Required Future Financing |
|---|---|---|---|---|
| Law Enforcement Building | $ 20,716,168 | $ 20,651,270 | $ 64,898 | $ 0 |

## 7. CHANGES IN COMPONENT UNIT FIXED ASSETS

Capital asset activity for the years ended March 31, 2006 and 2005 were as follows:

| 2006: | Balance 4/1/2005 | Additions | Deletions | Balance 3/31/2006 |
|---|---|---|---|---|
| Land | $ 1,130,375 | $ 131,477 | $ | $ 1,261,852 |
| Buildings | 28,254,828 | 889,076 | (18,205) | 29,125,699 |
| Furniture, Equipment and Machinery – Dwellings | 524,536 | | (5,888) | 518,648 |
| Furniture, Equipment and Machinery – Administration | 101,963 | 4,654 | | 106,617 |
| Leasehold Improvements | 3,382,371 | 33,000 | | 3,415,371 |
| TOTAL | $ 33,394,073 | $ 1,058,207 | $ (24,093) | $ 34,428,187 |

| 2005: | Balance 4/1/2004 | Additions | Deletions | Balance 3/31/2005 |
|---|---|---|---|---|
| Land | $ 889,679 | $ 240,696 | $ | $ 1,130,375 |
| Buildings | 27,389,649 | 874,380 | (9,201) | 28,254,828 |
| Furniture, Equipment and Machinery – Dwellings | 468,854 | 60,068 | (4,386) | 524,536 |
| Furniture, Equipment and Machinery – Administration | 97,462 | 4,501 | | 101,963 |
| Leasehold Improvements | 3,108,826 | 273,545 | | 3,382,371 |
| TOTAL | $ 31,954,470 | $ 1,453,190 | $ (13,587) | $ 33,394,073 |

Accumulated depreciation activity for the years ended March 31, 2006 and 2005 were as follows:

| 2006: | Balance 4/1/2005 | Additions | Deletions | Balance 3/31/2006 |
|---|---|---|---|---|
| Land | $ | $ | $ | $ |
| Buildings | 16,270,363 | 1,072,078 | (13,703) | 17,328,738 |
| Furniture, Equipment and Machinery – Dwellings | 377,676 | 27,050 | (5,888) | 398,838 |
| Furniture, Equipment and Machinery – Administration | 78,491 | 8,795 | | 87,286 |
| Leasehold Improvements | 1,895,055 | 148,583 | | 2,043,638 |
| TOTAL | $ 18,621,585 | $ 1,256,506 | $ (19,591) | $ 19,858,500 |

| 2005: | Balance 4/1/2004 | Additions | Deletions | Balance 3/31/2005 |
|---|---|---|---|---|
| Buildings | $ 15,091,722 | $ 1,241,841 | $ (63,200) | $ 16,270,363 |
| Furniture, Equipment and Machinery – Dwellings | 358,748 | 23,314 | (4,386) | 377,676 |
| Furniture, Equipment and Machinery – Administration | 71,978 | 6,513 | | 78,491 |
| Leasehold Improvements | 1,755,663 | 153,078 | (13,686) | 1,895,055 |
| TOTAL | $ 17,278,111 | $ 1,424,746 | $ (81,272) | $ 18,621,585 |

## 8. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

| | Long-Term Liabilities January 1, 2006 | Additions | Deletions | Long-Term Liabilities December 31, 006 | Due within One Year |
|---|---|---|---|---|---|
| **Primary Government:** | | | | | |
| **Governmental Activities:** | | | | | |
| Certificates of Participation: | | | | | |
| 2004 Series-Matures 5/1/13 | $ 1,045,000.00 | $ | $ 120,000.00 | $ 925,000.00 | $ 125,000.00 |
| 2003A Refunded Series-Matures 12/1/23 | 10,000,000.00 | | | 10,000,000.00 | |
| 2003B Refunded Series-Matures 12/1/08 | 1,240,000.00 | | 460,000.00 | 780,000.00 | 470,000.00 |
| 2002 Event Center-Matures 12/1/17 | 3,105,000.00 | | 205,000.00 | 2,900,000.00 | 210,000.00 |
| 2000 JSC Series-Matures 5/1/13 | 2,000,000.00 | | 210,000.00 | 1,790,000.00 | 220,000.00 |
| Honeywell Installment Contract-Matures 7/11/16 | | 3,694,447.00 | | 3,694,447.00 | 224,322.21 |
| Tax Increment Financing-Matures 6/1/07 | 369,102.00 | | 369,102.00 | | |
| Tax Increment Financing-Matures 4/15/10 | | 125,000.00 | | 125,000.00 | |
| Accrued Leave Payable | 2,172,179.46 | 228,248.26 | | 2,400,427.72 | 840,149.70 |
| **Total Primary Government** | $ 19,931,281.46 | $ 4,047,695.26 | $ 1,364,102.00 | $ 22,614,874.72 | $ 2,089,471.91 |

| | Long-Term Obligations April 1, 2005 | Additions | Deletions | Long-Term Obligations March 31, 2006 | Due within One Year |
|---|---|---|---|---|---|
| **Component Unit:** | | | | | |
| Bonds Payable | $ 2,637,229.00 | $ 0.00 | $ (138,713.00) | $ 2,498,516.00 | $ 118,935.00 |
| **Total Component Unit** | $ 2,637,229.00 | $ 0.00 | $ (138,713.00) | $ 2,498,516.00 | $ 118,935.00 |

Debt payable at December 31, 2006 is comprised of the following:

| | |
|---|---|
| Certificates of Participation:<br>2004 Series – Interest Rates from 1.25 percent to 3.4 percent - Maturing 5/1/13 – Payable from Accumulated Building Fund | $ 925,000.00 |
| 2003A Refunding Series – Interest rates from 2.8 percent to 4.4 percent – Maturing 12/1/23 – Payable from Accumulated Building Fund | $ 10,000,000.00 |

| | |
|---|---|
| 2003B Refunding Series – Interest rates from 1.1 percent to 2.55 percent – Maturing 12/1/2008 – Payable from the Accumulated Building Fund | $ 780,000.00 |
| Western South Dakota Juvenile Detention Center, Series 2000 – Interest rates from 4.5 percent to 5.4 percent – Maturing 5/1/13 – Payable from Courthouse Building Fund | $ 1,790,000.00 |
| Event Center – Interest rates from 4.0 percent to 4.75 percent - Maturing 12/1/17 – Payable from Courthouse Building Fund | $ 2,900,000.00 |
| Installment Contract:<br>Honeywell Lease – Interest rate of 4.53% - Maturing 7/11/16 - Payable from Accumulated Building Fund | $ 3,694,447.00 |
| Tax Increment Financing Debt:<br>2002 Bank Loan – Interest rate of 7 percent – Maturing 6/1/07 - Paid by Tax Increment District 2000-01 | $ 125,000.00 |
| Compensated Absences:<br>Accrued Leave Liability at December 31, 2006<br>Payment to be made by the fund that the payroll expenditures are charged to. | $ 2,400,427.72 |

The annual requirements to amortize all debt outstanding as of December 31, 2006, except for compensated absences are as follows:

Annual Requirements to Amortize Long-Term Debt
December 31, 2006

| PD IN FY 06 | | Installment Contract | | Certificates of Participation Payable | |
|---|---|---|---|---|---|
| Balance 12/31 | Year Ending December 31, | Principal | Interest | Principal | Interest |
| 2007 | 2007 | $ 224,322.21 | $ 249,462.73 | $ 1,025,000.00 | $ 640,441.50 |
| 2008 | 2008 | 320,173.65 | 153,611.29 | 1,055,000.00 | 608,505.00 |
| 2009 | 2009 | 334,841.78 | 138,943.16 | 1,090,000.00 | 572,472.75 |
| 2010 | 2010 | 350,181.88 | 123,603.06 | 1,130,000.00 | 532,536.50 |
| 2011 | 2011 | 366,224.77 | 107,560.17 | 1,185,000.00 | 488,861.75 |
| 2012 | 2016 | 2,098,702.71 | 270,222.01 | 5,240,000.00 | 1,760,956.50 |
| 2017 | 2021 | | | 3,965,000.00 | 848,563.50 |
| 2022 | 2023 | | | 1,705,000.00 | 113,092.00 |
| TOTAL | | $ 3,694,447.00 | $ 1,043,402.42 | $ 16,395,000.00 | $ 5,565,429.50 |

| | | Tax Increment Financing | | Total | |
|---|---|---|---|---|---|
| Balance 12/31 | Year Ending December 31, | Principal | Interest | Principal | Interest |
| 2007 | 2007 | $ 39,257.09 | $ 18,892.91 | $ 1,288,579.30 | $ 908,797.14 |
| 2008 | 2008 | 17,623.43 | 5,636.57 | 1,392,797.08 | 767,752.86 |
| 2009 | 2009 | 18,878.05 | 4,381.95 | 1,443,719.83 | 715,797.86 |
| 2010 | 2010 | 49,241.43 | 1,695.30 | 1,529,423.31 | 657,834.86 |
| 2011 | 2011 | | | 1,551,224.77 | 596,421.92 |
| 2012 | 2016 | | | 7,338,702.71 | 2,031,178.51 |
| 2017 | 2021 | | | 3,965,000.00 | 848,563.50 |
| 2022 | 2023 | | | 1,705,000.00 | 113,092.00 |
| TOTAL | | $ 125,000.00 | $ 30,606.73 | $ 20,214,447.00 | $ 6,639,438.65 |

9. CONDUIT DEBT

In the past, the County has issued revenue bonds to provide financial assistance to certain private sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the County, the State of South Dakota, nor any other political subdivision of the state is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2006, there were three series of conduit bonds outstanding, with an aggregate unpaid principal amount of $53,016,238.31.

10. RESTRICTED NET ASSETS - OTHER PURPOSES

Restricted net assets for the year ended December 31, 2006 were as follows:

| | | |
|---|---|---|
| **Other Purposes:** | | |
| Road and Bridge Fund | $ | 8,047,308.82 |
| Emergency and Disaster Fund | | 329,213.76 |
| Library Fund | | 198,924.26 |
| Drug Seizure Fund | | 123,535.51 |
| Fire Fund | | 240,310.35 |
| Title III Fund | | 393,779.18 |
| E 911 Fund | | 649,568.13 |
| Emergency Management Fund | | 227,785.41 |
| Hazardous Materials Fund | | 26,874.22 |
| Courthouse Building Fund | | 1,317,094.64 |
| Total Other Purposes | $ | 11,554,394.28 |

These balances are restricted due to federal grant and statutory requirements.

11. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2006 were as follows:

| | Transfers to: | | | |
|---|---|---|---|---|
| **Transfers From:** | General Fund | County Road and Bridge Fund | Capital Project Fund | Aggregate Other Governmental Total |
| Major Funds: | | | | |
| General Fund | | $ 2,668,617.00 | | $ 58,963.00 |
| County Road and Bridge Fund | $ 338,565.57 | | | |
| Other Governmental Funds | $ 75,827.84 | | $ 1,340,409.00 | |

The county typically budgets transfers to the County Road and Bridge Fund, Capital Projects Fund and the Emergency and Disaster Fund (Non Major Governmental Fund) to conduct the

indispensable functions of the county. Transfers to the General Fund are for the transfer of interest earning per county policy.

12. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The County's share of contributions to the SDRS for the fiscal years ended December 31, 2006, 2005, and 2004 were $1,462,763.03, $1,333,823.46 and $1,241,525.83, respectively, equal to the required contributions each year.

13. SIGNIFICANT CONTIGENCIES - LITIGATION

At December 31, 2006, the County was involved in several lawsuits. No determination can be made at this time regarding the potential outcome of these lawsuits. However, as discussed in the Risk Management note, the County has liability coverage for itself and its employees with The South Dakota Public Assurance Alliance. Therefore, no material effects are anticipated to the County as a result of the potential outcome of these lawsuits.

14. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2006, the County managed its risks as follows:

<u>Employee Health Insurance</u>:

The County has established a group health and dental self-insurance fund to pay for medical and dental claims of county employees and their covered dependents. Payments to the fund are actuarially determined and are to cover individual claims up to $35,000 and any administrative costs relative to the processing of the claims. Medical and dental claims exceeding this amount are covered through private insurance carriers. An estimated liability for claims incurred but not paid is accrued based upon the past experience of the plan. At December 31, 2006, the county had retained earnings in the amount of $1,347,569.63 in the Health Care Fund for the payment of future health and dental claims.

<u>Liability Insurance</u>:

The County joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local

government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The County's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the County. The County pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The County pays an annual premium to the pool to provide coverage for:

General Liability Coverage
Automobile Coverage
Errors and Omissions of Officials and Employees Coverage

The agreement with the SDPAA provides that the above coverages will be provided to a $5,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of $250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The County would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

| | |
|---|---|
| End of County's First Full Year | 50% |
| End of County's Second Full Year | 60% |
| End of County's Third Full Year | 70% |
| End of County's Fourth Full Year | 80% |
| End of County's Fifth Full Year | 90% |
| End of County's Sixth Full Year and Thereafter | 100% |

As of December 31, 2006, the County has vested balance in the cumulative reserve fund of $521,482.22.

The County carries a $2,500 deductible for the General Liability coverage, $2,500 to $4,000 deductible for Errors and Omissions coverage and $500 deductible for the Automobile coverage.

The County does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The County joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The County's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The County pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first $325,000 of any claim per individual. The pool has reinsurance which covers up to an additional $1,675,000 per individual per incident.

The County does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The County provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

15. TAX INCREMENTAL REVENUE FINANCING

During fiscal year 2005 the county created the Tax Incremental Financing District 2005-02. On April 18, 2005 the county became party to a Tax Increment Revenue Note whereby the county borrowed $125,000.00 from a bank for property development. The county makes payments on the note with subsequent property taxes on Tax Increment District 2005-02. The note is reported as a liability on the county balance sheet, but the county is not personally liable for any note payments.

As of December 31, 2006 the county had outstanding indebtedness of $125,000.00. The county reports the amount yet to be provided as Net Asset Restricted for Debt Service in the negative amount of ($125,000.00). The funding for the negative Net Asset Restricted for Debt Service will come from tax increment payments made by the tax increment district.

**REQUIRED SUPPLEMENTARY INFORMATION**
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**
**PENNINGTON COUNTY**
**For the Year Ended December 31, 2008**

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts (Budgetary Basis) | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Taxes: | | | | |
| General Property Taxes--Current | $ 22,060,408.00 | $ 22,060,408.00 | $ 21,568,218.87 | $ (492,189.13) |
| General Property Taxes--Delinquent | 235,000.00 | 235,000.00 | 205,622.05 | (29,377.95) |
| Penalties and Interest | 55,000.00 | 55,000.00 | 58,389.90 | 3,389.90 |
| Telephone Tax (Outside) | 275,000.00 | 275,000.00 | 101,521.30 | (173,478.70) |
| Mobile Home Tax | 64,500.00 | 64,500.00 | 165,698.94 | 101,198.94 |
| Tax Deed Revenue | 0.00 | 0.00 | 5,924.59 | 5,924.59 |
| Licenses and Permits | 239,375.00 | 239,375.00 | 302,288.00 | 62,913.00 |
| Intergovernmental Revenue: | | | | |
| Federal Grants | 802,216.00 | 1,202,538.00 | 1,075,344.07 | (127,193.93) |
| Federal Payments in Lieu of Taxes | 415,000.00 | 415,000.00 | 452,266.00 | 37,266.00 |
| State Grants | 19,000.00 | 19,000.00 | 14,747.00 | (4,253.00) |
| State Shared Revenue: | | | | |
| Bank Franchise | 200,000.00 | 200,000.00 | 133,547.15 | (66,452.85) |
| Inheritance Tax | 50,000.00 | 50,000.00 | 23,107.15 | (26,892.85) |
| Liquor Tax Reversion | 600.00 | 600.00 | 718.94 | 118.94 |
| Court Appointed Attorney/Public Defender | 160,000.00 | 160,000.00 | 161,899.44 | 1,899.44 |
| Abused/Neglected Child Defense | 0.00 | 0.00 | 30,712.08 | 30,712.08 |
| Telecommunications Gross Receipt Tax | 350,000.00 | 350,000.00 | 442,847.17 | 92,847.17 |
| Other Payments in Lieu of Taxes | 16,500.00 | 16,500.00 | 13,055.26 | (3,444.74) |
| Other Intergovernmental Revenue | 1,137,618.00 | 1,161,187.00 | 1,222,787.98 | 61,600.98 |
| Charges for Goods and Services: | | | | |
| General Government: | | | | |
| Treasurer's Fees | 125,200.00 | 155,200.00 | 182,127.40 | 26,927.40 |
| Register of Deeds' Fees | 772,500.00 | 772,500.00 | 1,101,043.26 | 328,543.26 |
| Driver's License Exam | 950.00 | 950.00 | 1,275.00 | 325.00 |
| Legal Services | 14,150.00 | 14,150.00 | 14,446.83 | 296.83 |
| Clerk of Courts Fees | 135,000.00 | 135,000.00 | 144,833.65 | 9,833.65 |
| Other Fees | 62,600.00 | 62,600.00 | 66,319.49 | 3,719.49 |
| Public Safety: | | | | |
| Law Enforcement | 744,355.00 | 744,355.00 | 841,563.07 | 97,208.07 |
| Prisoner Care | 4,167,100.00 | 4,167,100.00 | 4,086,717.60 | (80,382.40) |
| Other | 2,878,263.00 | 2,878,263.00 | 2,881,859.98 | 3,596.98 |
| Health and Welfare: | | | | |
| Economic Assistance: | | | | |
| Poor Lien Recoveries | 314,030.00 | 314,030.00 | 429,866.87 | 115,836.87 |
| Veterans Service Officer | 3,750.00 | 3,750.00 | 3,750.00 | 0.00 |
| Mental Health Services | 20,000.00 | 20,000.00 | 15,672.18 | (4,327.82) |
| Conservation of Natural Resources | 73,500.00 | 103,500.00 | 111,210.34 | 7,710.34 |
| Other Charges | 51,364.00 | 51,364.00 | 78,260.41 | 26,896.41 |
| Fines and Forfeits: | | | | |
| Fines | 2,000.00 | 2,000.00 | 7,220.00 | 5,220.00 |
| Costs | 65,000.00 | 65,000.00 | 109,638.59 | 44,638.59 |
| Forfeits | 500.00 | 500.00 | 1,000.00 | 500.00 |
| Miscellaneous Revenue: | | | | |
| Investment Earnings | 250,000.00 | 250,000.00 | 649,910.51 | 399,910.51 |
| Rent | 6,600.00 | 6,600.00 | 3,265.00 | (3,335.00) |
| Contributions and Donations | 0.00 | 20,010.00 | 20,810.65 | 800.65 |
| Refund of Prior Year's Expenses | 0.00 | 0.00 | 7,190.12 | 7,190.12 |
| Other | 160,000.00 | 174,430.00 | 171,777.03 | (2,652.97) |
| Total Revenue | 35,927,079.00 | 36,445,410.00 | 36,908,453.87 | 463,043.87 |
| **Expenditures:** | | | | |
| General Government: | | | | |
| Legislative: | | | | |
| Board of County Commissioners | 771,333.00 | 867,714.00 | 809,714.70 | 57,999.30 |
| Contingency | 350,000.00 | | | |
| Elections | 353,445.00 | 388,143.00 | 379,283.92 | 8,859.08 |
| Judicial System | 297,250.00 | 347,250.00 | 328,726.03 | 18,523.97 |
| Financial Administration: | | | | |
| Auditor | 268,570.00 | 268,570.00 | 262,861.66 | 5,708.34 |
| Treasurer | 699,125.00 | 729,125.00 | 697,914.68 | 31,210.32 |
| Data Processing | 729,065.00 | 729,065.00 | 648,728.63 | 80,336.37 |

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

PENNINGTON COUNTY

For the Year Ended December 31, 2006
(Continued)

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - |
|---|---|---|---|---|
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| Legal Services: | | | | |
| State's Attorney | 1,554,003.00 | 1,604,003.00 | 1,583,948.71 | 20,054.29 |
| Public Defender | 1,266,439.00 | 1,266,439.00 | 1,252,321.92 | 14,117.08 |
| Court Appointed Attorney | 175,000.00 | 313,000.00 | 317,540.68 | (4,540.68) |
| Abused/Neglected Child Defense | 150,000.00 | 230,000.00 | 211,774.55 | 18,225.45 |
| Other | 587,225.00 | 647,235.00 | 563,930.06 | 83,304.94 |
| Other Administration: | | | | |
| General Government Building | 2,366,650.00 | 6,061,097.00 | 5,774,981.42 | 286,115.58 |
| Director of Equalization | 1,014,700.00 | 1,014,700.00 | 904,697.70 | 110,002.30 |
| Register of Deeds | 437,192.00 | 437,192.00 | 370,414.47 | 66,777.53 |
| Predatory Animal (GFP) | 3,830.00 | 3,830.00 | 3,830.00 | 0.00 |
| Other | 100,000.00 | 100,000.00 | 100,000.00 | 0.00 |
| Public Safety: | | | | |
| Law Enforcement: | | | | |
| Sheriff | 4,859,278.00 | 5,249,110.00 | 5,113,141.06 | 135,968.94 |
| County Jail | 6,371,726.00 | 6,431,726.00 | 6,062,261.66 | 369,464.34 |
| Coroner | 96,500.00 | 111,500.00 | 105,751.42 | 5,748.58 |
| County-Wide Law Enforcement | 867,375.00 | 867,375.00 | 864,099.19 | 3,275.81 |
| Juvenile Detention | 4,715,262.00 | 4,715,262.00 | 4,418,077.78 | 297,184.22 |
| Protective and Emergency Services: | | | | |
| Emergency and Disaster Services | 106,092.00 | 106,092.00 | 99,243.19 | 6,848.81 |
| Communication Center | 1,191,661.00 | 1,191,661.00 | 1,184,060.22 | 7,600.78 |
| Public Works: | | | | |
| Other Public Works | 70,510.00 | 70,510.00 | 49,770.26 | 20,739.74 |
| Health and Welfare: | | | | |
| Economic Assistance: | | | | |
| Support of Poor | 1,303,179.00 | 1,303,179.00 | 958,343.10 | 344,835.90 |
| Health Assistance: | | | | |
| County Nurse | 43,260.00 | 43,260.00 | 43,260.00 | 0.00 |
| Health Services | 108,840.00 | 108,840.00 | 108,840.00 | 0.00 |
| Ambulance | 7,927.00 | 7,927.00 | 5,369.28 | 2,557.72 |
| Social Services: | | | | |
| Care of Aged | 20,446.00 | 20,446.00 | 20,446.00 | 0.00 |
| Mental Health Services: | | | | |
| Mentally Ill | 668,455.00 | 668,455.00 | 608,401.10 | 60,053.90 |
| Drug Abuse | 2,792,401.00 | 2,855,422.00 | 2,742,415.49 | 113,006.51 |
| Culture and Recreation: | | | | |
| Recreation: | | | | |
| County Fair | 220,000.00 | 324,005.00 | 307,755.00 | 16,250.00 |
| Conservation of Natural Resources: | | | | |
| Soil Conservation: | | | | |
| County Extension | 110,663.00 | 110,663.00 | 104,423.91 | 6,239.09 |
| Soil Conservation Districts | 58,335.00 | 58,335.00 | 58,335.00 | 0.00 |
| Weed and Pest Control | 233,385.00 | 263,385.00 | 256,320.25 | 7,064.75 |
| Water Conservation: | | | | |
| Drainage Commissions | 95,000.00 | 95,000.00 | 19,553.18 | 75,446.82 |
| Urban and Economic Development: | | | | |
| Urban Development: | | | | |
| Planning and Zoning | 320,698.00 | 351,579.00 | 309,644.39 | 41,934.61 |
| Economic Development: | | | | |
| Tourism, Industrial or Recreation Development | 60,000.00 | 60,000.00 | 60,000.00 | 0.00 |
| Debt Service | 309,805.00 | 309,805.00 | 309,105.00 | 700.00 |
| Total Expenditures | 35,754,625.00 | 40,330,900.00 | 38,019,285.61 | 2,311,614.39 |
| Excess of Revenue Over (Under) Expenditures | 172,454.00 | (3,885,490.00) | (1,110,831.74) | 2,774,658.26 |
| **Other Financing Sources (Uses):** | | | | |
| Operating Transfers In | 0.00 | 0.00 | 414,393.41 | 414,393.41 |
| Operating Transfers Out | (2,250,000.00) | (2,250,000.00) | (2,727,580.00) | (477,580.00) |
| Proceeds of General Long-Term Liabilities | 0.00 | 0.00 | 3,694,447.00 | 3,694,447.00 |
| Sale of County Property | 2,000.00 | 2,000.00 | 0.00 | (2,000.00) |
| Total Other Financing Sources (Uses) | (2,248,000.00) | (2,248,000.00) | 1,381,260.41 | 3,629,260.41 |

## REQUIRED SUPPLEMENTARY INFORMATION
## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
## PENNINGTON COUNTY
**For the Year Ended December 31, 2006**
***(Continued)***

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - |
|---|---|---|---|---|
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| Net Change in Fund Balances | (2,075,546.00) | (6,133,490.00) | 270,428.67 | 6,403,918.67 |
| Fund Balance - Beginning | 11,441,895.24 | 11,441,895.24 | 11,441,895.24 | 0.00 |
| FUND BALANCE - ENDING | $ 9,366,349.24 | $ 5,308,405.24 | $ 11,712,323.91 | $ 6,403,918.67 |

**REQUIRED SUPPLEMENTARY INFORMATION**
**BUDGETARY COMPARISON SCHEDULE - ROAD AND BRIDGE FUND**
**PENNINGTON COUNTY**
**For the Year Ended December 31, 2006**

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts (Budgetary Basis) | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Taxes: | | | | |
| General Property Taxes--Current | $ 1,361,068.00 | $ 1,361,068.00 | $ 1,312,788.58 | $ (48,279.42) |
| General Property Taxes--Delinquent | 24,000.00 | 24,000.00 | 19,296.91 | (4,703.09) |
| Penalties and Interest | 5,000.00 | 5,000.00 | 3,877.18 | (1,122.82) |
| Mobile Home Tax | 7,500.00 | 7,500.00 | 8,316.60 | 816.60 |
| Tax Deed Revenue | 0.00 | 0.00 | 1,481.15 | 1,481.15 |
| Licenses and Permits | 1,700.00 | 1,700.00 | 2,210.45 | 510.45 |
| Intergovernmental Revenue: | | | | |
| Federal Shared Revenue | 573,000.00 | 573,000.00 | 621,221.44 | 48,221.44 |
| State Shared Revenue: | | | | |
| Bank Franchise | 10,000.00 | 10,000.00 | 7,135.58 | (2,864.42) |
| Motor Vehicle Licenses | 2,795,000.00 | 2,795,000.00 | 3,132,328.60 | 337,328.60 |
| Prorate/Port of Entry Fees | 0.00 | 0.00 | 335,203.08 | 335,203.08 |
| 85% Mobile Home | 140,000.00 | 140,000.00 | 94,530.38 | (45,469.62) |
| Secondary Road Motor Vehicle Remittances | 700,000.00 | 700,000.00 | 801,522.47 | 101,522.47 |
| Other Intergovernmental Revenue | 52,000.00 | 52,000.00 | 94,005.56 | 42,005.56 |
| Charges for Goods and Services: | | | | |
| Public Works: | | | | |
| Highways | 1,000.00 | 1,000.00 | 116,168.30 | 115,168.30 |
| Miscellaneous Revenue: | | | | |
| Investment Earnings | 0.00 | 0.00 | 338,565.57 | 338,565.57 |
| Rent | 480.00 | 480.00 | 480.00 | 0.00 |
| Other | 4,500.00 | 4,500.00 | 20,826.12 | 16,326.12 |
| Total Revenue | 5,675,248.00 | 5,675,248.00 | 6,909,957.97 | 1,234,709.97 |
| **Expenditures:** | | | | |
| Public Works: | | | | |
| Highways and Bridges: | | | | |
| Highways, Roads and Bridges | 7,760,913.00 | 8,260,913.00 | 8,213,890.50 | 47,022.50 |
| Excess of Revenue Over/Under Expenditures | (2,085,665.00) | (2,585,665.00) | (1,303,932.53) | 1,281,732.47 |
| **Other Financing Sources (Uses):** | | | | |
| Operating Transfers In | 2,190,733.00 | 2,190,733.00 | 2,668,617.00 | 477,884.00 |
| Operating Transfers Out | 0.00 | 0.00 | (338,565.57) | (338,565.57) |
| Total Other Financing Sources (Uses) | 2,190,733.00 | 2,190,733.00 | 2,330,051.43 | 139,318.43 |
| Net Change in Fund Balances | 105,068.00 | (394,932.00) | 1,026,118.90 | 1,421,050.90 |
| Change in Fund Balance Reserves | 0.00 | 0.00 | 122,052.48 | 122,052.48 |
| Fund Balance - Beginning | 7,233,257.00 | 7,233,257.00 | 7,233,257.00 | 0.00 |
| FUND BALANCE - ENDING | $ 7,338,325.00 | $ 6,838,325.00 | $ 8,381,428.38 | $ 1,543,103.38 |

**REQUIRED SUPPLEMENTARY INFORMATION**
**BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND**
**PENNINGTON COUNTY**
**For the Year Ended December 31, 2006**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - |
|---|---|---|---|---|
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| **Revenue:** | | | | |
| Intergovernmental Revenue: | | | | |
| Other Intergovernmental Revenue | $ 0.00 | $ 0.00 | $ 149,920.93 | $ 149,920.93 |
| Miscellaneous Revenue: | | | | |
| Investment Earnings | 0.00 | 0.00 | 15,117.77 | 15,117.77 |
| Total Revenue | 0.00 | 0.00 | 165,038.70 | 165,038.70 |
| **Expenditures:** | | | | |
| Other Administration: | | | | |
| General Government Building | 0.00 | 0.00 | 185,073.00 | (185,073.00) |
| Public Safety: | | | | |
| Law Enforcement | | | | |
| Sheriff | 0.00 | 575,000.00 | 385,470.63 | 189,529.37 |
| County Jail | 0.00 | 1,540,409.00 | 1,218,706.75 | 321,702.25 |
| Total Expenditures | 0.00 | 2,115,409.00 | 1,789,250.38 | 326,158.62 |
| Excess of Revenue Over/Under Expenditures | 0.00 | (2,115,409.00) | (1,624,211.68) | 491,197.32 |
| **Other Financing Sources (Uses):** | | | | |
| Operating Transfers In | 0.00 | 0.00 | 1,340,409.00 | 1,340,409.00 |
| Net Change in Fund Balances | 0.00 | (2,115,409.00) | (283,802.68) | 1,831,606.32 |
| Fund Balance - Beginning | 1,055,577.91 | 1,055,577.91 | 1,055,577.91 | 0.00 |
| FUND BALANCE - ENDING | $ 1,055,577.91 | $ (1,059,831.09) | $ 771,775.23 | $ 1,831,606.32 |

PENNINGTON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting:

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between the fifteenth and thirtieth days of July in each year the Board of County commissioners prepares and files with the County Auditor a provisional budget for the following year, containing a detailed estimate of cash balances, revenues and expenditures.

2. Prior to the first Tuesday in September in each year a notice of budget hearing is published once each week for two successive weeks, and the text of the provisional budget is published with the first publication.

3. The Board of County Commissioners holds a meeting for the purpose of considering the provisional budget on or prior to the first Tuesday in September in each year. Such hearings must be concluded by October first. Changes made to the provisional budget are entered at length in the minutes of the Board of County Commissioners.

4. Before October first of each year the Board of County Commissioners adopts an annual budget for the ensuing year. The adopted budget is filed in the office of the County Auditor.

5. After adoption by the Board of County Commissioners, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 7.

6. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total county budget.

7. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.

8. Unexpended appropriations lapse at year end unless encumbered by resolution of the Board of County Commissioners.

9. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

10. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with USGAAP.

Note 2. Budgetary Accounting Basis Differences:

Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

**PENNINGTON COUNTY**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**For the Year Ended December 31, 2006**

| Federal Grantor/Pass-Through Grantor Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Expenditures 2006 |
|---|---|---|---|
| US Department of Agriculture: | | | |
| Schools and Roads Cluster: | | | |
| Direct Federal Funding: | | | |
| *Schools and Roads - Grants to Counties* (Bankhead Jones) (Note 2) (Note 3) | 10.666 | | $ 7,884.16 |
| Indirect Federal Funding: | | | |
| SD State Auditor, | | | |
| Schools and Roads -- Grants to States -- Forest Apportionment (Note 2) (Note 3) (Note 4) | 10.665 | | 1,249,820.32 |
| Indirect Federal Funding: | | | |
| SD Cooperative Extension Service, | | | |
| Extension Postage Allocation | 10.500 | | 4,000.01 |
| SD Department of Education, | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program (Note 2) (Note 3) | 10.553 | | 34,989.56 |
| National School Lunch Program (Note 2) (Note 3) | 10.555 | | 69,381.74 |
| Total US Department of Agriculture | | | 1,366,075.79 |
| Department of Interior: | | | |
| Direct Federal Funding: | | | |
| Bureau of Land Management, | | | |
| Payment in Lieu of Taxes (97-258) (Note 2) | 15.226 | | 452,266.00 |
| National Fire Plan - Wildland Urban Interface Community Fire Assistance | 15.228 | | 27,500.67 |
| Total Department of Interior | | | 479,766.67 |
| Department of Justice: | | | |
| Direct Federal Funding: | | | |
| Bureau of Justice Assistance, | | | |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | | 49,361.00 |
| *Bulletproof Vest Partnership Program* | 16.607 | | 5,482.55 |
| Violence Against Women Office, | | | |
| Rural Domestic Violence and Child Victimization Enforcement Grant Program (Note 3) | 16.589 | | 152,540.09 |
| Indirect Federal Funding: | | | |
| SD Attorney General, | | | |
| High Intensity Drug Trafficking Area | 16.000 | | 137,796.75 |
| SD Department of Corrections, | | | |
| Juvenile Accountability Incentive Block Grant | 16.523 | | 22,430.70 |
| Juvenile Justice and Delinquency Prevention-- Allocation to States | 16.540 | | 78,084.08 |
| SD Department of Social Services, | | | |
| Crime Victim Assistance | 16.575 | VOCA-06-45 | 31,140.00 |
| Violence Against Women Formula Grants | 16.588 | STOP_P-06-158 | 42,760.00 |
| Violence Against Women Formula Grants | 16.588 | STOP_P-07-158 | 33,240.00 |
| SD Department of Public Safety, | | | |
| Enforcing Underage Drinking Laws Program | 16.727 | | 6,582.06 |
| Total Department of Justice | | | 559,417.23 |
| General Services Administration: | | | |
| Indirect Federal Funding: | | | |
| SD Federal Property Agency, | | | |
| *Donation of Federal Surplus* Personal Property (Note 5) | 39.003 | | 23,833.53 |

## PENNINGTON COUNTY
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### For the Year Ended December 31, 2006
### (Continued)

| Federal Grantor/Pass-Through Grantor Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Expenditures 2006 |
|---|---|---|---|
| Elections Assistance Commission: | | | |
| Indirect Federal Funding: | | | |
| SD Secretary of State, | | | |
| Help America Vote Act Requirements Payments (Note 3) | 90.401 | | 320,060.00 |
| | | | |
| Department of Health and Human Services: | | | |
| Indirect Federal Funding: | | | |
| SD Department of Health, | | | |
| Centers for Disease Control and Prevention_Investigations and Technical Assistance | 93.283 | | 29,250.00 |
| SD Secretary of State, | | | |
| Voting Access for Individuals with Disabilities Grants to States | 93.617 | | 1,828.51 |
| Total Department of Health and Human Services | | | 31,078.51 |
| | | | |
| Department of Homeland Security: | | | |
| Indirect Federal Funding: | | | |
| SD Department of Public Safety, | | | |
| *Office of Emergency Management,* | | | |
| Emergency Management Performance Grant | 97.042 | | 83,363.52 |
| | | | |
| Homeland Security Cluster: | | | |
| State Domestic Preparedness Equipment Support Program | 97.004 | | 252,092.73 |
| Homeland Security Grant Program | 97.067 | | 1,059,481.04 |
| Total Department of Homeland Security | | | 1,394,937.29 |
| | | | |
| GRAND TOTAL | | | $ 4,175,169.02 |

**Note 1:** This accompanying schedule of expenditures of federal awards includes the federal grant activity of the county and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

**Note 2:** Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

**Note 3:** This represents a Major Federal Financial Assistance Program.

**Note 4:** Of the federal expenditures presented in the schedule, the county provided federal awards to sub-recipients as follows:

| Program Title | Federal CFDA Number | Amount Provided to Subrecipients |
|---|---|---|
| Schools and Roads_Grants to States | 10.665 | $ 613,337.27 |

**Note 5:** The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the county.

**PENNINGTON COUNTY**
**SCHEDULE OF REVENUES AND EXPENDITURES**
**REGIONAL JUVENILE SERVICE CENTER**
**For the Year Ended December 31, 2006**

| | | |
|---|---|---|
| Beginning Balance - January 1, 2006 | | $ 0.00 |
| **Revenues:** | | |
| School Lunch Program | 104,371.30 | |
| Pennington County | 2,307,042.50 | |
| Butte County | 41,255.00 | |
| Harding County | 5,550.00 | |
| Lawrence County | 54,390.00 | |
| Meade County | 45,510.00 | |
| Custer County | 40,145.00 | |
| Fall River County | 50,135.00 | |
| Room and Board-Other Counties | 235,782.59 | |
| Room and Board-State | 376,290.00 | |
| Room and Board-Federal | 1,203,165.64 | |
| Fees and Charges | 3,907.25 | |
| Pay Phone Charges | 10,080.79 | |
| Total Revenues | | 4,477,625.07 |
| **Expenditures:** | | |
| Salaries | 2,737,762.56 | |
| OASI | 199,069.08 | |
| Retirement | 216,854.41 | |
| Workman's Compensation | 60,690.72 | |
| Group Insurance | 212,807.23 | |
| Liability Insurance (Auto) | 46,368.85 | |
| Service and Fees | 96,696.11 | |
| Repairs and Maintenance | 27,003.28 | |
| Supplies | 99,354.76 | |
| Training and Travel | 25,495.03 | |
| Utilities | 98,820.86 | |
| Food Service | 89,302.31 | |
| Data Processing | 12,130.01 | |
| Furniture and Equipment | 51,528.97 | |
| Medical Supplies | 19,523.18 | |
| Total Expenditures | | 3,993,407.36 |
| Excess of Revenues Over Expenditures | | 484,217.71 |
| Refund Checks to Participating Counties | | 484,217.71 |
| Ending Balance - December 31, 2006 | | $ 0.00 |

## APPENDIX D
## CONTINUING DISCLOSURE

In order to permit bidders for the Series 2008A Certificates and other participating underwriters in the primary offering of the Series 2008A Certificates to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (as in effect and interpreted from time to time, the "Rule"), the County will covenant and agree, for the benefit of the Owners (as hereinafter defined) from time to time of any Series 2008A Certificates which are outstanding, in the Continuing Disclosure Agreement to provide certain specified information, if customarily prepared and publicly available, and notice of the occurrence of certain events, if material, as hereinafter described (the "Disclosure Covenants"). The County is the only "obligated person" in respect of the Series 2008A Certificates within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made.

Breach of the Disclosure Covenants will not constitute a default under the Trust Agreement or the Continuing Disclosure Agreement or the Series 2008A Certificates. A broker or dealer is to consider a known breach of the Disclosure Covenants before recommending the purchase or sale of Series 2008A Certificates in the secondary market. Thus, a failure on the part of the County to observe the Disclosure Covenants may adversely affect the transferability and liquidity of the Series 2008A Certificates and their market price.

As used herein, "Owner" or "Certificateowner" means, in respect of a Series 2008A Certificate, the registered holder or holders thereof appearing in the bond register maintained by the Registrar or any "Beneficial Owner" (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, "Beneficial Owner" means, in respect of a Series 2008A Certificate, any person or entity which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series 2008A Certificate (including persons or entities holding Series 2008A Certificates through nominees, depositories or other intermediaries), or (ii) is treated as the owner of the Series 2008A Certificate for federal income tax purposes.

As used herein, a "Material Fact" is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Series 2008A Certificate or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed under the Disclosure Covenants or information generally available to the public. Notwithstanding the foregoing sentence, a "Material Fact" is also an event that would be deemed "material" for purposes of the purchase, holding or sale of a Series 2008A Certificate within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

**Information to be Disclosed**

The County will provide, in the manner set forth under "Manner of Disclosure" below, either directly or indirectly through an agent designated by the County, the following information at the following times:

*Annual Information*

At least annually to the state information depository then designated or operated by the State of South Dakota (the "State Depository"), if any, or, if no State Depository then exists, to any person or entity upon request, the financial and statistical information (the "Disclosure Information") of the type contained under the heading "Information Concerning the County" in Appendix B to the Official Statement, which information may be unaudited and which, for financial statement information, shall be for the most recent fiscal year of the County (if in response to a request, the most recent fiscal year ending not less than 270 days before the date of the request), and, for other such information, the information most recently compiled by the County on a customary basis and publicly available under applicable data privacy or other laws.

Requests for Disclosure Information should be directed to:

Julie A. Pearson, County Auditor
Pennington County Courthouse
315 St. Joseph Street
Rapid City, South Dakota 57701
Telephone: (605) 394-2153

If any part of the Disclosure Information is changed because it is no longer compiled or publicly available or can no longer be generated because the operations of the County have materially changed or been discontinued, such Disclosure Information need no longer be provided if the County includes in the Disclosure Information a statement to such effect; provided, however, if such discontinued operations have been replaced by other County operations in respect of which data is not included in the Disclosure Information and the County determines that certain specified data regarding such replacement operations would be a Material Fact and such data is customarily compiled and publicly available, then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or the Disclosure Covenants are amended as permitted by the Trust Agreement or the Continuing Disclosure Agreement, then the County is to include in the next Disclosure Information to be delivered under the Disclosure Covenants, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

*Certain Material Events*

In a timely manner to the Municipal Securities Rulemaking Board and to the State Depository, if any, notice of the occurrence of any of the following events which is a Material Fact:

(A) Principal and interest payment delinquencies;

(B) Non-payment related defaults;

(C) Unscheduled draws on debt service reserves reflecting financial difficulties;

(D) Unscheduled draws on credit enhancements reflecting financial difficulties;

(E) Substitution of credit or liquidity providers, or their failure to perform;

(F) Adverse tax opinions or events affecting the tax-exempt status of the security;

(G) Modifications to rights of security holders;

(H) Bond calls;

(I) Defeasances;

(J) Release, substitution, or sale of property securing repayment of the securities; and

(K) Rating changes.

**The County notes that, since no debt service reserve fund secures the Series 2008A Certificates and there is no credit enhancement securing the Series 2008A Certificates on the date of issue, the events listed in clauses (C), (D) and (E) may not be applicable.**

*Certain Other Information*

In a timely manner to the State Depository or, if no State Depository then exists, with the next delivery of the Disclosure Information, notice of the occurrence of any of the following events or conditions:

(A) the amendment or supplementing of the Disclosure Covenants pursuant to the Trust Agreement and the Continuing Disclosure Agreement, together with a copy of such amendment or supplement and any explanation provided by the County under the Disclosure Covenants;

(B) the termination of the obligations of the County under the Disclosure Covenants pursuant to the Trust Agreement and the Continuing Disclosure Agreement;

(C) any change in the accounting principles pursuant to which any financial statements constituting a portion of the Disclosure Information are prepared, and

(D) any change in the fiscal year of the County.

**Term**

The Disclosure Covenants shall remain in effect until all Series 2008A Certificates have been paid or defeased under the Trust Agreement. Notwithstanding the preceding sentence, however, the Disclosure Covenants shall terminate and be without further effect as of any date on which the County delivers to the Registrar an opinion

of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the County to comply with the Disclosure Covenants will not cause participating underwriters in the primary offering of the Series 2008A Certificates to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

**Amendments; Interpretation**

The Disclosure Covenants (and the form and requirements of the Disclosure Information) may be amended or supplemented by the County from time to time, without notice to or the consent of the Owners of any Series 2008A Certificates, by a resolution of the governing body of the County filed in the office of the recording officer of the County accompanied by an opinion of Bond Counsel, who may rely on certificates of the County and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the County or the type of operations conducted by the County, or (b) is required by, or better complies with, the provisions of paragraph (d)(2) of the Rule; (ii) the Disclosure Covenants as so amended or supplemented would have complied with the requirements of paragraph (d)(2) of the Rule at the time of the primary offering of the Series 2008A Certificates, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Series 2008A Certificateowners under the Rule. If the Disclosure Information is so amended, the County agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

The Disclosure Covenants are to be construed so as to satisfy the requirements of paragraph (d)(2) of the Rule.

**Default Remedies**

If the County fails to comply with any of the Disclosure Covenants, any person aggrieved thereby, including the Owners of any Outstanding Series 2008A Certificates, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any such covenant. Direct, indirect, consequential and punitive damages shall not be recoverable, however, for any default thereunder to the extent permitted by law. In no event shall a default under the Disclosure Covenants constitute a default under the Series 2008A Certificates or under any other provision of the Trust Agreement or the Continuing Disclosure Agreement.

*(This page has been left blank intentionally.)*

## APPENDIX E
## BOOK-ENTRY ONLY SYSTEM

***The following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The County and the Financial Advisor make no representation as to the accuracy of such information.***

The Depository Trust Company (DTC"), New York, New York, will act as securities depository for the 2008A Certificates. The 2008A Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (ETC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2008A Certificates certificate will be issued for the 2008A Certificates, in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section [17A] of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfer and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2008A Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008A Certificates on DTC's records. The ownership interest of each actual purchaser of each 2008A Certificate ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008A Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2008A Certificates, except in the event that use of the book-entry-only system for the 2008A Certificates is discontinued.

To facilitate subsequent transfers, all 2008A Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2008A Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008A Certificates: DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008A Certificates are credited, which mayor may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2008A Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008A Certificates, such as redemptions, tenders, defaults, and proposed amendments to the 2008A Certificate documents. For example, Beneficial Owners of 2008A Certificates

may wish to ascertain that the nominee holding the 2008A Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the 2008A Certificates within a Series maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008A Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008A Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the 2008A Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of finds and corresponding detail information from the County or the Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in the "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Registrar, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registrar, disbursement of such payments to the Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2008A Certificates at any time by giving reasonable notice to the County or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered.

NEITHER THE COUNTY NOR THE REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEE WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE 2008A CERTIFICATES. THE COUNTY CANNOT AND DOES NOT GIVEN ANY ASSURANCES THAT DTC, THE DTC PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE 2008A CERTIFICATES PAID TO DTC OR ITS NOMINEE, AS THE REGISTERED OWNER, OR PROVIDE ANY NOTICES TO THE BENEFICIAL OWNERS OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

The Book-Entry Agreement may be terminated by either the County or DTC. In the event of such a termination, if no substitute Securities Depository can be found which is willing and able to undertake such functions upon reasonable and customary terms, the 2008A Certificates shall no longer be restricted to being registered in the registration books kept by the Registrar in the name of Cede & Co., as Nominee of DTC, but may be registered in whatever name or names Owners transferring or exchanging the 2008A Certificates shall designate, in accordance with the provisions hereof.

Portions of the foregoing concerning DTC and DTC's Book-Entry System are based on information furnished by DTC to the County. No representation is made herein by the County or the Financial Advisor as to the accuracy or completeness of such information.